

State of New Hampshire

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2003



New Hampshire's Old Man of the Mountain
1805 - May 3, 2003

Prepared by: Department of Administrative Services

A Tribute to the “Old Man of the Mountain”

During the cool, rain soaked evening of May 3, 2003, this icon of New Hampshire independence, which itself reflected the face of nature, collapsed into memory. Those same forces of nature that created him affected his demise.

His profile was formed during the last ice age and consisted of five separate granite outcroppings, two of which formed the forehead, two the nose and upper lip and one the chin. Sitting some 1200 feet above Profile Lake, his actual age has never been determined, however the “Great Stone Face” is steeped in Native American legend and has inspired prose and poetry since it was first sighted in 1805 by a party laying out the road, which passes beneath it.

During the 1820's, word was being spread to travelers with instructions on how to best view the stone face, whose likeness would be lost from the incorrect angle or distance. By the mid 1800's, the moniker “Old Man of the Mountain” had originated, reportedly stemming from a Concord, NH journalist who signed his newspaper articles, “Old Man of the Mountain”.

The issues of longevity arose over 100 years prior to the actual collapse. In 1891, it was written that there was a great probability that the profile would not last for many years longer due to a perceived deterioration of the granite. As early as 1915, plans were laid to secure a portion of the ledges with turnbuckles.

Over the next 40 years, as funds were appropriated and donated and as nature continued its course of change, turnbuckles were installed and cracks sealed in an effort to prolong the life of the state symbol. In 1960, a State Highway worker named Niels Nielsen began a labor of love, dedicated to saving the “Old Man” and beginning a family tradition. Niels Nielsen became the first official caretaker of the stone profile and his son David became the second, making annual inspections and repairs where needed.

On May 3, 2003, as the world learned of the loss of this important symbol of New Hampshire, thoughts turned toward establishing a fitting memorial to carry on the legacy. On May 6, 2003, Governor Craig Benson established the Old Man of the Mountain Revitalization Task Force and Revitalization Fund and named former Governor Steve Merrill as Chairperson. The task force was charged with development of a recommendation of possible options for an enduring memorial to the “Old Man of the Mountain”.

Over the summer months, as thousands of visitors made pilgrimages to Franconia Notch, the task force distributed information about their directive while also collecting and sorting public recommendations and thoughts from thousands throughout the state, country and overseas. In considering suggestions and trying to determine what is tactful, tasteful and economically feasible, the task force is committed to the concept of allowing the citizens of New Hampshire to have a strong say in the search for a memorial to last generations.

Public sentiment has run strong on the issue of attempting to re-create a likeness of the “Old Man” on the mountainside above Profile Lake. Technological and Geological opinions have discouraged this, as the remaining ledge may not accept the weight of an artificial likeness.

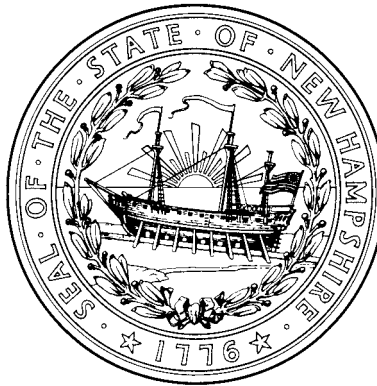
In early November 2003, the Task Force recommended several tributes to take the memory of the Old Man of the Mountain into the future. An expanded museum at the base of Franconia Notch would have permanent displays of memorabilia and collectibles, along with viewfinders which will recreate the image of the “Old Man” from ground level. A traveling educational display would visit schools and libraries to teach the history, significance and geology surrounding the “Old Man”. Also suggested is an awards program, with awards modeled after the likeness of the Great Stone Face, to recognize communities that preserve local heritage and exemplify the spirit of life in New Hampshire.

Anyone who has ever visited the White Mountains of New Hampshire, and more specifically the area known as Franconia Notch, will not forget the profile of that weathered human face, formed of stone and known as the “Old Man of the Mountain”.

STATE OF NEW HAMPSHIRE

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended
June 30, 2003



Prepared by the Department of Administrative Services

Donald S. Hill, Commissioner
Thomas E. Martin, Comptroller
Sheri L. Walter, Director
Stephen C. Smith
Mark S. Stone

Division of Accounting Services

This document and related information can be accessed at <http://admin.state.nh.us/accounting>



TABLE OF CONTENTS

INTRODUCTORY SECTION

Governor's Letter.....	1
Selected State Officials.....	2
Organization Chart.....	3
Letter of Transmittal.....	4
GFOA Certificate of Achievement.....	11

FINANCIAL SECTION

Independent Auditors' Report.....	14
Management's Discussion and Analysis.....	16

Basic Financial Statements

Government-wide Financial Statements

Statement of Net Assets.....	24
Statement of Activities.....	26

Governmental Fund Financial Statements

Balance Sheet.....	30
Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets.....	31
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	32
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statement of Activities.....	33

Proprietary-Enterprise Fund Financial Statements

Statement of Net Assets.....	36
Statement of Revenues, Expenses, and Changes in Proprietary-Enterprise Funds.....	37
Statement of Cash Flows.....	38

Fiduciary Fund Financial Statements

Statement of Fiduciary Net Assets.....	40
Statement of Changes in Fiduciary Net Assets.....	41

Index for Notes to the Basic Financial Statements.....	42
Notes to the Basic Financial Statements.....	43

Combining Financial Statements and Schedules (Continued)

Budget to Actual Schedules	
Budget to Actual - General Fund.....	65
Budget to Actual - Highway Fund.....	66
Budget to Actual - Education Fund.....	67
Budget to Actual - Fish & Game Fund.....	68
Note to the Required Supplementary Information-Budgetary Reporting.....	69

Other Supplementary Information

Combining Governmental Financial Statements	
Combining Balance Sheet Non-Major Funds.....	72
Combining Statement of Revenues, Expenditures and Changes In Fund Balances Non-Major Funds..	73
Combining Fiduciary Fund Financial Statements	
Pension Trust Funds	
Combining Statement of Plan Net Assets.....	75
Combining Statement of Changes in Plan Net Assets.....	76
Private Purpose Trust Funds	
Combining Statement of Net Assets.....	78
Combining Statement of Changes in Net Assets.....	79
Agency Funds	
Combining Statement of Assets & Liabilities.....	81
Combining Statement of Changes in Assets & Liabilities.....	82

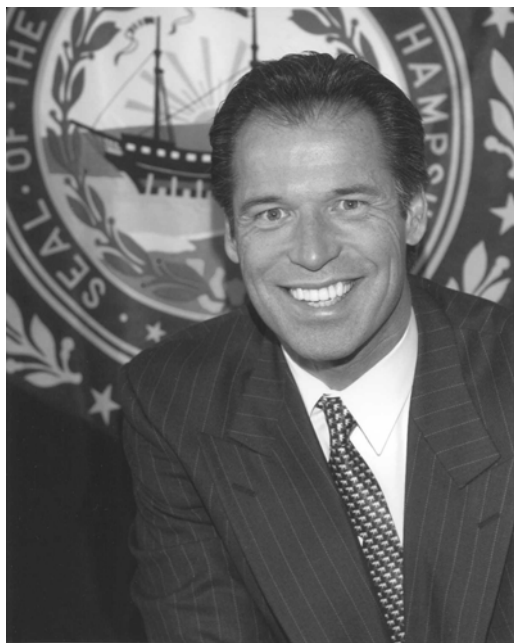
STATISTICAL SECTION

Table of Revenues, Expenditures and Changes in Fund Balances -	
General, Highway, Education, and Fish & Game Funds.....	84
Table of Unrestricted Revenue.....	85
Table of Undesignated Fund Balance - General Fund.....	86
Table of Undesignated Fund Balance - Education Fund.....	87
Table of Undesignated Fund Balance - Highway Fund.....	88
Table of Undesignated Fund Balance - Fish & Game Fund.....	89
Schedule of Revenue Bond Coverage Ratio - Turnpike System Revenue Bonds.....	90
Ratio of General Long-Term Debt to Assessed Value and General Long-Term Debt Per Capita.....	91
Demographic Statistics.....	91
Number of Building Permits for Housing Units.....	92
Schedule of the Twenty Largest Private Sector Employers.....	92



STATE OF NEW HAMPSHIRE

OFFICE OF THE GOVERNOR

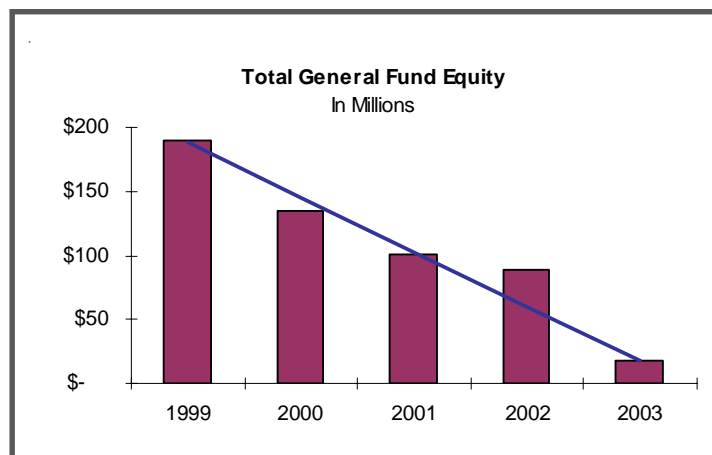


To: The Honorable Members of the Legislature
and the Citizens of the State of New Hampshire

I am pleased to accept the *Fiscal Year 2003 State of New Hampshire Comprehensive Annual Financial Report*.

New Hampshire, like most other states, has experienced an economic slow-down over the past few years and although the impact of this recession has not been as severe as in the early 1990's, the state's financial position has declined. Fund Balances (including reserve accounts) have been on a four-year steady decrease from its pre-education trust fund peak of \$188.3 million in fiscal 1999 to \$17.3 million in fiscal 2003. The June 30, 2003 General and Education Funds deficit of \$71.8 million was eliminated by year-end transfers from the Health Care Fund (HCF) and Rainy Day reserve accounts. As a result, the entire balance in the HCF was eliminated and the Rainy Day Account was reduced from \$55.2 million to \$17.3 million.

In the spirit of New Hampshire's long history of fiscal discipline, I have introduced a constitutional amendment called the Taxpayer's Bill of Rights, which is a long term philosophy to limit spending growth to increases in population and inflation. My administration is dedicated to the state living within its means and we will work tirelessly to do just that by examining every corner of the budget. The budget gives me flexibility to make various budgetary adjustments and contingency plans are being developed to reduce spending even further. The budget also includes very conservative revenue estimates, and with the improving economy, revenues should exceed those estimates. These dollars from savings will be transferred to the Rainy Day Account to restore our reserves to acceptable levels.



In addition the Governors Efficiency Committee has generated several new initiatives to save dollars by consolidating various administrative functions and looking at ways we can do business better. We have already consolidated Information Technology, which will allow us to reduce the cost of services and make services easily accessible to the citizens of this state.

Despite the financial pressures, New Hampshire continues to be one of the best places in the nation to live, work and raise a family. Unemployment rates have remained low and per capita personal income has grown faster than the national and regional rates. In addition, there are indications that the state is poised for economic and employment recovery ahead of other states in the region. Lastly, I have teamed up with Public Service of New Hampshire to offer \$250,000 in awards for best business competition plans for *Start Up New Hampshire* and our Office of Business & Industrial Development is helping to attract new business and retain existing companies. All in all, New Hampshire is building a climate that is ripe for our entrepreneurs to succeed, and to lead us to a stronger future.

Sincerely,

Craig Benson



State of New Hampshire
Selected State Officials
For the Fiscal Year Ended June 30, 2003

Executive Branch

Governor Craig Benson

Executive Council

Raymond S. Burton, District 1

Peter J. Spaulding, District 2

Ruth L. Griffin, District 3

Raymond J. Wieczorek, District 4

David K. Wheeler, District 5

Attorney General

Peter W. Heed

Commissioner of Administrative Services

Donald S. Hill

Treasurer

Michael A. Ablowich

Secretary of State

William M. Gardner

Judicial Branch

Chief Justice of the Supreme Court

David A. Brock

Legislative Branch

President of the Senate

Thomas R. Eaton

24 Senators

Speaker of the House of Representatives

Gene G. Chandler

400 Representatives

STATE OF NEW HAMPSHIRE

ORGANIZATION CHART



LEGISLATIVE

Senate
House of Representatives
Legislative Services
Legislative Budget Assistant

EXECUTIVE

Governor
and
Council

JUDICIAL

Supreme Court
Superior Court
District Court
Municipal Court
Probate Court

STATE AGENCIES AND COMPONENT UNITS (*)

GENERAL GOVERNMENT

Administrative Services
Cultural Resources
Executive Office
NH Retirement System*
Revenue Administration
Secretary of State
State Treasury

ADMINISTRATION OF JUSTICE AND PUBLIC PROTECTION

Adjutant General
Agriculture, Markets & Food
Banking
Corrections
Employment Security
Highway Safety
Insurance
Justice
Labor
Liquor Commission
Pari-Mutuel Commission
Public Deposit Investment Pool
Public Utilities Commission
Safety

RESOURCE PROTECTION AND DEVELOPMENT

Business Finance Authority*
Environmental Services
Fish and Game
Community Development Finance
Authority*
Pease Development Authority*
Resources and Economic Development

TRANSPORTATION

Transportation

HEALTH AND SOCIAL SERVICES

Health and Human Services
Veterans' Council
Veterans' Home
Youth Development Services

EDUCATION

Education
Postsecondary Education Commission
NH Community Technical College
System
Sweepstakes Commission
University System of New Hamp-
shire*



State of New Hampshire
DEPARTMENT OF ADMINISTRATIVE SERVICES
OFFICE OF THE COMMISSIONER
25 Capitol Street – Room 120
Concord, New Hampshire 03301

DONALD S. HILL
Commissioner
(603) 271-3201

December 17, 2003

To: The Citizens of New Hampshire,
His Excellency the Governor
and the Honorable Council

In accordance with the Revised Statutes Annotated (RSA) 21-I:8,I,(h), it is a pleasure to submit the Comprehensive Annual Financial Report (CAFR), covering the fiscal year ended June 30, 2003. This report has been prepared by the state Department of Administrative Services and responsibility for both the accuracy of the data presented and completeness and fairness of the presentation, including all disclosures, rests with the state. The basic financial statements, considered by management to present fairly and consistently the state's financial position and results of operations, have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB).

The CAFR is presented in three major sections:

- The Introductory Section includes this transmittal letter, the state's organization chart, and summary financial information.
- The Financial Section includes the independent auditors' report, management's discussion and analysis (MD&A), government-wide financial statements, fund financial statements for governmental funds, proprietary funds, fiduciary funds together with notes to the basic financial statements, required supplementary information and combining financial statements.
- The Statistical Section contains selected financial, demographic, and economic data.

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

The financial reporting entity includes all funds of the state as legally defined, as well as all of its component units. Component units are legally separate entities for which the state is financially accountable. Note 1 to the Basic Financial Statements provides a more complete description of the state's reporting entity. The state provides a full range of services including: the construction and maintenance of highways and infrastructure, education, health and social services, public safety, conservation of natural resources, economic development, and recreation facilities and development.

New Hampshire's Economic Outlook

Despite stagnant economic conditions, New Hampshire continues to retain its advantages of being a medium cost state in a high cost area with its low unemployment rates, low tax burdens, highly skilled workforce, and small and accessible government. In addition, New Hampshire's proximity to metropolitan Boston may mean continued migration of people and business into the state.

Another boost to NH's future economic development is its continued high quality of life. According to Morgan Quitno's Most Livable State Awards, NH remained near the top rankings in both New England and the nation.

<i>New Hampshire's Economic Scoreboard for 2003</i>		
<i>Categories</i>	<i>NH's National Rank</i>	<i>NH's Rank in New England</i>
Favorable Tax Climate	1st	1st
Healthiest State (Morgan Quitno, 2002)	2nd	2nd
Standard of Living (by Poverty Rate)	1st	1st
Child and Family Well-Being (Annie E. Casey, 2002)	2nd	1st
Safest State (Morgan Quitno, 2002)	1st	1st
Most Livable State (Morgan Quitno, 2002)	3rd	1st
College Educated Population	11th	5th

Source: Dennis Delay Economist

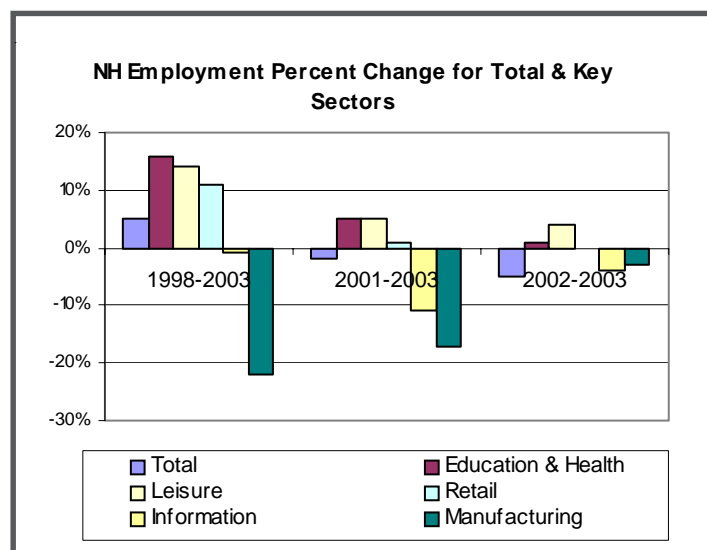
New Hampshire's diversified economic foundation, with its high technology and entrepreneurial base, played an important role in keeping New Hampshire from a significant pro-longed recession. While NH's high technology base, and in particular its high tech manufacturing industries, declined significantly with the end of the technology boom in the late 1990s, NH's overall economy has been resilient. The state, in addition to its concentration in high tech, has significant concentrations in employment in education and health services, leisure and hospitality, and retail trade, as compared to US averages.

As in the nation, the industry of steepest employment decline in NH during the late 1990s and early 2000s has been manufacturing. From 1998 to 2003 the state lost 1 in 5 of its manufacturing employment.

The manufacturing employment loss in NH was concentrated in high technology manufacturing. A high portion of this employment was at contract manufacturers who suffered from decline in orders. Even when orders in these industries recover with the general business cycle, it will not recover in NH to their pre-late 1990s levels. Contract manufacturers have shifted facilities and employment to lower cost nations overseas.

Since mid-2002 manufacturing's decline in NH has slowed to below the regional and US averages. As with the most recent total employment trends, in the manufacturing data as of the 3rd quarter of 2003 there are indications that the NH economy is improving ahead of the region's economy and the nation overall.

According to the New England Economic Project's (NEEP) forecast, it is anticipated that New Hampshire's economy will continue to grow at rates higher than that of the region and nation, although NH's growth rates are expected to be well below those experienced in the late 1990s. Even though the recent downward trends in manufacturing will continue, NH's manufacturing decline is expected to drop at decreasing rates and then level off.



MAJOR INITIATIVES

Enterprise Resource Planning (ERP)

With a view to replacing the Department of Administrative Services central data processing system, the department has contracted with an information technology vendor to aid in the development of Enterprise Resource Planning (ERP) requirements and acquisition. The current financial and human resource systems are nineteen years old and will only be supported by the vendor for approximately 12 more months.

The IT vendor is working with the state to create a statewide strategic business plan, determine statewide ERP business needs, create an ERP systems requirement report, and assess the state's central service technology structure. In addition, the vendor will participate in the development of a request for proposal (RFP) for the new ERP and aid in the selection of a software vendor and contract finalization. The 2003 capital budget included approximately \$18.8 million of appropriations for the ERP project.

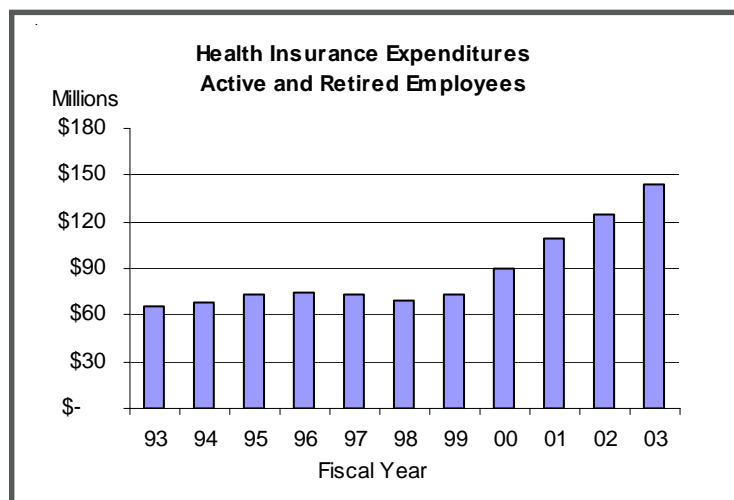
New Office of Information Technology

Pursuant to Chapter 225, Laws of 2003, the state established the Office of Information Technology (OIT) within the Governor's Office and under supervision of the Chief Information Officer. On July 16, 2003 the Joint Legislative Fiscal Committee approved transferring 315 State IT employees from 9 agencies into the newly created office. The OIT continues to take shape towards its aggressive long-range goals.

The new OIT will create and sustain an IT environment that fully supports each agency's mission, goals, and objectives while ensuring the careful and responsible management of the state's IT resources. The office will strive to overcome redundancies and increase efficiencies in state government, maximize vendor relationships, and deliver innovative technology solutions.

Employee Benefit Risk Management Fund

Chapter 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in insurance costs. As a result, a new fund, titled the Employee Benefit Risk Management Fund, was established. The fund was created to manage the state's self-insurance program and to pool all resources to pay for the cost associated with providing employee benefits.



Agencies will be charged an actuarially determined premium to be paid into this new fund on a bi-weekly basis and will be efficiently accessed through the state's payroll system. Claims payments by the third party administrator to the providers will be reimbursed by the state out of this new fund daily. The change is effective October 1, 2003.

FINANCIAL INFORMATION

Surplus Statement General and Education Funds (In Millions)

	FY 2001	FY 2002			FY 2003		
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	70.3	(0.0)	0.0	0.0	(37.9)	0.0	(37.9)
Additions:							
Unrestricted Revenue	1,826.4	1,152.3	804.9	1,957.2	1,206.3	842.7	2,049.0
Transfers of Appropriation from General Fund	40.6	-	65.7	65.7	-	83.4	83.4
Total Additions	1,867.0	1,152.3	870.6	2,022.9	1,206.3	926.1	2,132.4
Deductions:							
Appropriations Net of Estimated Revenues	(1,941.5)	(1,228.5)	(887.6)	(2,116.1)	(1,264.7)	(904.5)	(2,169.2)
Less Lapses	33.1	26.1	0.4	26.5	20.7		20.7
Total Net Appropriations	(1,908.4)	(1,202.4)	(887.2)	(2,089.6)	(1,244.0)	(904.5)	(2,148.5)
GAAP and Other Adjustments	7.1	16.9	-	16.9	(17.8)	-	(17.8)
Current Year Balance	(34.3)	(33.2)	(16.6)	(49.8)	(55.5)	21.6	(33.9)
Fund Balance Transfers (To)/From:							
Rainy Day Fund	(35.2)	-	-	-	37.9	-	37.9
Health Care Fund	(0.8)	11.9	-	11.9	33.9	-	33.9
Education Trust Fund	-	(16.6)	16.6	-	21.6	(21.6)	-
Undesignated Fund Balance, June 30,	(0.0)	(37.9)	0.0	(37.9)	(0.0)	0.0	(0.0)
Reserved for Rainy Day Account	55.2	55.2		55.2	17.3		17.3
Reserved for Health Care Fund	45.8	33.9		33.9	-		-
Total Equity	101.0	51.2	0.0	51.2	17.3	0.0	17.3

The combined year-end General and Education Fund Balances (including HCF and Rainy Day reserve accounts) at June 30, 2003 was a total of \$17.3 million. Fund Balances have been on a four-year steady decline from its pre-education trust fund peak \$188.3 million in FY 1999. Prior to year-end transfers, the current year 2003 operating deficit was a negative \$33.9 million, for the General and Education Funds combined.

The original budget initially approved by legislature projected a current year shortfall of \$17.2 million. The cumulative deficit of \$71.8 million (current year deficit of \$33.9 million and carry forward deficit \$37.9 million) was eliminated by year-end transfers from the Health Care Fund (HCF) and Rainy Day reserve accounts. In accordance with Chapter 319:145 of the laws of 2003, the HCF balance of \$33.9 was closed out to the General Fund. In accordance with Chapter 319:33, an additional \$37.9 million was transferred from the Rainy Day fund to eliminate the entire General Fund deficit. This transfer reduced the June 30, 2003 balance in the Rainy Day fund from \$55.2 million to \$17.3 million.

Although 2003 revenues grew over 2002, revenues fell short of spending authorizations. As a result, the state authorized 3 executive orders to reduce spending:

- Executive Order #2002-05 issued on June 12, 2002 reduced appropriations by \$8.9 million.
- Executive Order #2003-05 issued on April 16, 2003 reduced appropriations by \$18.8 million
- Executive Order #2003-01, issued on January 15, 2003 reduced expenditures by freezing vacant positions, equipment, out of state travel, consultants and IT hardware.

Year-end lapses totaled \$20.7 million, which was below original projections. The reduced lapse resulted from appropriation reduction efforts in the form of the above mentioned executive orders. In addition, lapses associated with employee benefits did not materialize, due to double-digit increases in health insurance premiums.

**Summary of General and Education Funds Unrestricted Revenue
GAAP Basis (In Millions)**

Revenue Category	FY 2001	FY 2002			FY 2003			FY 2003
	Total	General	Education	Total	General	Education	Total	Combined Plan
Business Profits Tax.....	\$ 195.4	\$ 128.6	\$ 32.6	\$ 161.2	\$ 137.7	\$ 37.1	\$ 174.8	\$ 267.6
Business Enterprise Tax.....	158.9	121.0	101.2	222.2	96.6	121.4	218.0	162.0
Subtotal.....	354.3	249.6	133.8	383.4	234.3	158.5	392.8	429.6
Meals & Rooms Tax.....	164.0	164.0	6.6	170.6	168.7	6.7	175.4	193.4
Tobacco Tax.....	86.4	60.3	24.0	84.3	67.1	27.0	94.1	85.0
Liquor Sales and Distribution.....	89.3	96.2		96.2	99.0		99.0	96.5
Interest & Dividends Tax.....	76.7	70.3		70.3	55.1		55.1	79.0
Insurance Tax.....	66.5	76.1		76.1	82.2		82.2	63.0
Communications Tax.....	49.0	64.7		64.7	62.4		62.4	70.9
Real Estate Transfer Tax.....	89.2	66.4	33.1	99.5	78.8	39.4	118.2	102.5
Estate and Legacy Tax.....	59.3	57.0		57.0	59.1		59.1	54.8
Transfers from Sweepstakes.....	59.4		66.1	66.1		66.6	66.6	66.0
Tobacco Settlement.....	38.7	5.7	40.0	45.7	5.9	40.0	45.9	40.0
Utility Property Tax.....	15.6		18.2	18.2		18.8	18.8	20.5
Property Tax Not Retained Locally.....	24.2		29.0	29.0		32.7	32.7	32.7
Property Tax Retained Locally.....	418.0		454.1	454.1		453.0	453.0	453.0
Other.....	137.6	127.5		127.5	160.1		160.1	135.7
Subtotal.....	1,728.2	1,037.8	804.9	1,842.7	1,072.7	842.7	1,915.4	1,922.6
Net Medicaid Enhancement Revenues.....	85.2	98.2		98.2	117.0		117.0	94.0
Subtotal.....	1,813.4	1,136.0	804.9	1,940.9	1,189.7	842.7	2,032.4	2,016.6
Other Medicaid Enhancement Revenues to Fund Net Appropriations..	13.0	16.3		16.3	16.6		16.6	13.4
Total.....	\$ 1,826.4	\$ 1,152.3	\$ 804.9	\$ 1,957.2	\$ 1,206.3	\$ 842.7	\$ 2,049.0	\$ 2,030.0

Despite the economic recession, General and Education Fund unrestricted revenues for fiscal year 2003 showed respectable increases over prior year. Unrestricted revenue totaled \$2,049.0 million, which was a \$19.0 (1.0%) million increase over plan and a 4.7% increase over prior year. The plan represents the legislative estimates contained in the original budget that was adopted in June 2001. Any significant shortfalls or gains over plan in the first year (fiscal 2002) of the biennium was expected to reoccur in the second year (fiscal 2003) of the biennium.

- **Business Taxes** totaled \$392.8 million, \$36.8 million below plan but \$9.4 million (2.5%) over prior year.
- **Meals and Rooms** totaled \$175.4 million, below plan by \$18.0 million but slightly ahead of prior year by \$4.8 million (2.8%).
- **Insurance Tax** totaled \$82.2 million, which exceeded the plan by \$19.2 million and prior year by \$6.1 million (8.0%).
- **Tobacco Tax** totaled \$94.1 million, a substantial increase over prior year (11.6%) due to the tax advantage over neighboring states.
- **Real Estate Transfer Tax** again performed strongly, totaling \$118.2 million (18.8% over prior year) resulting from: increased home prices, sales activity spurred by low interest rates & the repeal of the tax exemption from business property transfers, including the Seabrook nuclear power station which generated approximately \$6.2 million in real estate transfer tax payments in December, 2002.
- **Uniform Property Tax** was reduced to \$5.80 per \$1,000 of total equalized value from \$6.60 per thousand last year. With increasing property values, the uniform education property tax (both retained locally and not retained locally) generated a total of \$485.7 million, which was \$2.6 million above the prior year and equal to plan.
- **Medicaid Enhancement Revenues (MER)** totaled \$117.0 million, which was a \$23.0 million increase over plan and \$18.8 million over prior year. Included in the MER is \$15.3 million that was recorded under the proportionate share program (Proshare). This amount represents the resolution of prior year claims that were deferred by the Federal Government in fiscal year 2002. Due to the uncertainty with the delay associated with receiving federal approval for the Medicaid Plan amendment, the fiscal year 2003 Proshare billing estimated at \$6.5 million and restricted revenue of \$3.8 million has not been recorded as revenue. The other major MER activities include the 6% hospital tax, which totaled \$84.6 million and disproportionate share revenues associated with New Hampshire Hospital which totaled \$14.0 million.

Budgetary Process

The state budget is prepared on a biennial basis. Prior to the start of each biennium, all departments of the state are required by law to transmit to the commissioner of the Department of Administrative Services requests for capital and operating expenses and estimates for revenue for the ensuing biennium. Following public hearings and consultation with various department heads, the Governor prepares a recommended budget. The budget is forwarded to the Legislature by February 15th of the odd year for consideration. The Legislature performs its review of the proposed budget and can make further adjustments. The budget passed by the Legislature is forwarded to the Governor to be enacted into law or to be vetoed.

The legal level of budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with prior approval from the Legislative Fiscal Committee and the Executive Council.

Internal Controls

Major fiscal responsibilities within the state are segregated among the following officials:

- **Department of Administrative Services** - The commissioner of Administrative Services, the assistant commissioner/budget officer and the comptroller are responsible for enforcing financial policy guidelines, developing the executive budget, collecting financial data from individual agencies, developing and reviewing appropriation control procedures, and compiling agency financial information.

- **Legislative Budget Assistant (LBA)** - The LBA, appointed by the Fiscal Committee, is responsible for ensuring that an annual audit is conducted of the state's basic financial statements prepared by the Department of Administrative Services. The LBA also provides staff assistance to the finance committees of the state Legislature. The LBA Audit Division performs various financial, compliance, and performance audits of state agencies.

- **State Treasurer** - The state treasurer, elected by the Legislature, is responsible for executing policy for the management of the state treasury and depositing and investing state funds as well as the issuing of general obligation and revenue bonds.

- **State Agencies** - Agency commissioners and directors are responsible for administering their agencies, in accordance with legislative and executive directives, to effectively service the citizens of the state.

Financial transactions for the various state agencies are recorded in the New Hampshire Integrated Financial System (NHIFS). The state's centralized accounting system and other accounting procedures were designed to provide various controls to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use and the proper recording of financial transactions. The Department of Administrative Services prepared the Internal Controls Tool Kit to further educate agency personnel in the importance of maintaining an effective internal control structure.

Cash and Investments

Cash deposits into the state treasury are coordinated jointly by the state treasurer and the state agencies. Cash is managed in pooled investment funds in order to maximize interest earnings. Investments are made in accordance with state statutes. Cash is primarily invested in United States Treasury and agency obligations and certificates of deposit. For the fiscal year ended June 30, 2003, the average daily balance of pooled investment funds was estimated at \$306.0 million, with an average yield of 1.6%. Total investment income was \$5.0 million for the year.

Insurance

Historically, the state has assumed the risk for fire, property, and general liability purposes, except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial to the general public. Commercial insurance is purchased by the state to cover such things as fleet automobile, watercraft and aircraft liability, ski area operations to protect the state from liabilities resulting from the state run facility, and a faithful performance position schedule bond to protect against dishonest acts of employees. Effective May 1, 2000, commercial insurance was purchased to cover state owned buildings in the event of a catastrophic loss.

Prior to July 1985, the state relied on the doctrine of sovereign immunity. Subsequently, legislation became effective creating the statute "Claims Against the State" in which sovereign immunity was waived to certain limits and would allow certain types of actions and claims to be brought against the state. The limits set by the statute are the basis for risk management programs.

OTHER INFORMATION

Audits

Pursuant to RSA 21-I:8,I(h), the Legislative Budget Assistant may designate a certified public accountant not employed in state service to conduct an annual audit, in accordance with Generally Accepted Auditing Standards, of the state's basic financial statements. KPMG LLP, the designated certified public accountant, has performed an independent audit of the state's basic financial statements for the fiscal year ended June 30, 2003.

In order to comply with the Single Audit Act of 1984, the Legislative Budget Assistant also contracts for a single audit of the state as a whole, which will include a legal compliance report on all federal funds received by the state. This report (including a Schedule of Expenditures of Federal Awards received by the state and comments on internal accounting controls and compliance with laws, rules and regulations) will be published separately.

Certificate of Achievement

The Government Finance Officers Association of the United States of America and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of New Hampshire for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. This was the sixth consecutive year that the state received this prestigious award.

In order to be awarded a certificate of achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. The CAFR must satisfy both accounting principles generally accepted in the USA and applicable legal requirements.

A certificate of achievement is valid for a period of one year only. We believe our current report continues to comply with the program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Annual Report to the Citizens

Again in fiscal year 2003, the Department of Administrative Services published the *Annual Report to the Citizens*. That report presents a simplified version of the financial information contained in the CAFR, as well as an overview of state operations and other nonfinancial data. A copy of the report may be obtained from the Department of Administrative Services, 25 Capitol St. Rm 310, Concord NH 03301, or from the department's web site at <http://admin.state.nh.us/accounting>.

Acknowledgements

In submitting this report, I acknowledge the cooperation and assistance of all the state agencies and the dedication of the employees of the Department of Administrative Services.

Respectfully submitted,



Donald S. Hill, Commissioner

***Certificate of Achievement
For Excellence in
Financial Reporting***

Presented to

State of New Hampshire

*For its Comprehensive Annual Financial Report
for the Fiscal Year Ended
June 30, 2002*

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Edward Harrington
President

Jeffrey L. Esser
Executive Director



Financial Section





99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800

INDEPENDENT AUDITORS' REPORT

To the Fiscal Committee of the General Court
State of New Hampshire
Concord, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Hampshire as of and for the year ended June 30, 2003, which collectively comprise the State of New Hampshire's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of New Hampshire's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the financial statements of any of the discretely presented component units and we did not audit the financial statements of the Investment Trust Fund. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Hampshire as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.





To the Fiscal Committee of the General Court
State of New Hampshire

Management's Discussion and Analysis on pages 16 through 22, and the budget to actual - budgetary basis - schedules on pages 65 through 69 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of New Hampshire's basic financial statements. The combining financial statements and schedules as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information included in the introductory and statistical sections of this report has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2003, on our consideration of the State of New Hampshire's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

December 17, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial activities of the State of New Hampshire (the state) for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information included in our letter of transmittal, which can be found at the front of this report and with the state's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS -PRIMARY GOVERNMENT

Government-Wide Highlights:

Net Assets: The total assets of the state exceeded total liabilities at fiscal year ending June 30, 2003 by \$2.2 billion. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government (condensed information can be seen in this MD&A section of this report). Of this amount, \$346.7 million was reported as unrestricted net assets, \$574.3 million was restricted net assets, and \$1,325.2 million was invested in capital assets. Unrestricted net assets represent the amount available to be used to meet the state's ongoing obligations to citizens and creditors.

Changes in Net Assets: The state's total net assets decreased by \$187.2 million, or 7.7%, in fiscal year 2003. Net assets of governmental activities decreased by \$132.0 million (7.2%), and net assets of the business-type activities showed a decrease of \$55.2 million (9.3%).

Fund Highlights:

Governmental Funds - Fund Balances: As of the close of fiscal year 2003, the state's governmental funds reported a combined ending fund balance of \$285.3 million, a decrease of \$104.7 million in comparison with the prior year. Included in the combined governmental fund balance is the activity of the state's General Fund. The General Fund ended the year with no unreserved, undesignated balance after transfers from the Health Care Fund (HCF) and Rainy Day Fund. As a result the HCF was eliminated and the Rainy Day balance decreased to \$17.3 million from \$55.2 million last year.

Long-Term Debt:

The state's total long-term obligations decreased by \$57.3 million (5.7%) during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the state's basic financial statements. The state's basic financial statements include three components:

1. Government-Wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the state's finances. These statements (Statement of Net Assets and the Statement of Activities) provide both short-term and long-term information about the state's overall financial position. They are prepared using the accrual basis of accounting, which recognizes all revenues and expenses connected with the fiscal year even if cash has not been received or paid.

The **Statement of Net Assets**, beginning on page 24 presents all of the state's non-fiduciary assets and liabilities. The difference between assets and liabilities is reported as "net assets" instead of fund equity as shown on the Fund Statements. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the state is improving or deteriorating.

The **Statement of Activities**, beginning on page 26 presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and licenses and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the state.

Both of the government-wide financial statements have separate sections for three different types of state activities. These three types of activities are:

Governmental Activities: The activities in this section represent most of the state's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the state include general government, administration of justice and public protection, resource protection and development, transportation, health and social services, and education.

Business-Type Activities: These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the state include the operations of the:

- Liquor Commission,
- Sweepstake Commission,
- Turnpike System, and
- New Hampshire Unemployment Compensation Trust Fund.

Discretely Presented Component Units: Component Units are entities that are legally separate from the state, but for which the state is financially accountable. The state's discretely pre-

sented component units are presented in the aggregate in these Government-Wide Statements and include the:

- University System of New Hampshire (USNH),
- Business Finance Authority,
- Pease Development Authority, and
- Community Development Finance Authority.

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the state's component units are presented in the notes to the financial statements.

Fund Financial Statements

A fund is a grouping of related funds that is used to maintain control over resources that have been segregated for specific activities or objectives. The state, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements, focus on the individual parts of the state government, and report the state's operations in more detail than the government-wide statements. The state's funds are divided into 3 categories – governmental, proprietary and fiduciary. For governmental and proprietary funds, only those funds that are considered Major Funds are reported in individual columns in the Fund Financial Statements with combining schedules in the other supplementary information section to support the Non-Major Funds. Fiduciary funds are reported by fiduciary type (pension, private-purpose, investment trust, and agency) with combining schedules in the Supplementary Section.

Governmental Funds: Most of the basic services provided by the state are financed through governmental funds. Unlike the government-wide financial statements, the governmental fund financial statements report using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the state's programs. The basic governmental fund financial statements can be found on pages 30-33.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented here with similar information presented in the government-wide financial statements. Reconciliations are provided between the Governmental Fund Statements and the Government-Wide Statements, which can be found on pages 31 and 33.

The state's major governmental funds include the General Fund, Highway Fund, and Education Fund.

Individual fund data for each of the state's non-major governmental funds (Fish and Game Fund, Capital Fund and Permanent Funds) are provided in the combining statements found on pages 72 and 73.

Proprietary Funds: The state's proprietary funds provide goods and services to the general public and charge a user fee. These activities are reported in 4 enterprise funds, all considered major funds. They include the operations of the Liquor Commission, Sweepstake Commission, Turnpike System and the New Hampshire Unemployment Trust Fund.

Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements. The basic proprietary funds financial statements can be found on pages 36-38.

Fiduciary Funds and Similar Component Units: These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the state's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds in that they use the accrual basis of accounting.

The state's fiduciary funds on pages 40-41 include the:

- **Pension Trust Fund** which accounts for the activity of the state's New Hampshire Retirement System - a component unit of the state,
- **Investment Trust Fund** which accounts for the activity of the external investment pool known as PDIP,
- **Private-Purpose Trust Funds** which account for the activity of trust arrangements under which principal and income benefit individuals, private organizations, or other governments, and
- **Agency Funds** which account for the resources held in a pure custodial capacity.

Individual fund detail can be found in the combining financial statements in the Other Supplementary Information Section.

Major Component Units

The state has only one major component unit - the University System of New Hampshire and 3 non-major component units. This separation is determined by the relative size of the individual entities' assets, liabilities, revenues and expenses in relation to the combined total of all component units. The basic financial statements for the component units have been presented in a condensed format located in Footnote 12 of the Notes to the Financial Statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements begin on page 43.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for each of the state's major governmental funds, and includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance as presented in the governmental fund financial statements.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental and fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The state's combined net assets (government and business-type activities) totaled \$2.2 billion at the end of 2003, compared to \$2.4 billion at the end of the previous year.

Investment in Capital Assets: The largest portion of the state's net assets (59.0%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. The state's investment in capital assets decreased \$26.8 million from prior year. This decrease was the result of net disposals and transfers of capital assets of \$93.1 million during the year, which was offset by a reduction in capital related debt of \$66.3 million. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities.

Restricted Net Assets: An additional portion of the state's net assets (25.6%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets decreased \$123.5 million from prior year. As a result of continued economic pressures, the state tapped into reserve accounts for unemployment benefits, revenue stabilization, and unspent bond proceeds for capital assets, during fiscal 2003.

Unrestricted Net Assets: The state's unrestricted net assets, totaling \$346.7 million, may be used to meet the state's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of both the current and prior fiscal years, the state was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

State of New Hampshire's Net Assets as of June 30, 2003 and 2002						
(In Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Current assets	\$ 703,907	\$ 719,455	\$ 351,175	\$ 396,628	\$ 1,055,082	\$ 1,116,083
Capital assets	1,779,060	1,874,213	520,275	518,212	2,299,335	2,392,425
Other assets	255,685	275,188	58,194	78,090	313,879	353,278
Total assets	2,738,652	2,868,856	929,644	992,930	3,668,296	3,861,786
Long-term liabilities	622,041	668,392	326,873	337,807	948,914	1,006,199
Other liabilities	408,099	359,919	64,971	62,147	473,070	422,066
Total liabilities	1,030,140	1,028,311	391,844	399,954	1,421,984	1,428,265
Net assets:						
Invested in capital assets, net of related debt	1,169,486	1,214,131	155,743	137,890	1,325,229	1,352,021
Restricted	245,459	296,405	328,906	401,502	574,365	697,907
Unrestricted	293,567	330,009	53,151	53,584	346,718	383,593
Total net assets	\$ 1,708,512	\$ 1,840,545	\$ 537,800	\$ 592,976	\$ 2,246,312	\$ 2,433,521

Changes in Net Assets

The state's net assets decreased by \$187.2 million, or 7.7%, during the current fiscal year. Although total revenues increased by \$247.5 million (5.8%) it was not sufficient to offset the significant increases in expenses.

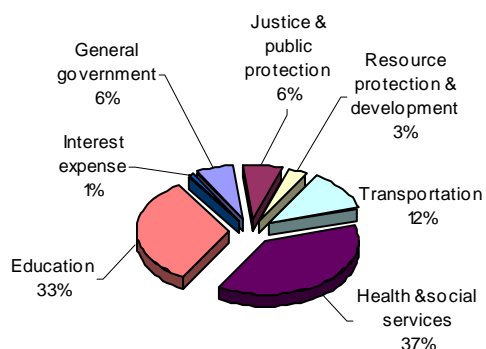
More than half of the state's revenue (58.5%) is from program revenue, consisting of: charges for goods and services, and federal and local grants and contributions. Revenues not specifically targeted for a specific program are known as general revenues, which are primarily from taxes. The largest revenue increases were from federal operating grants to support health and social service programs and a combination of growth in several taxes including insurance, real estate, and tobacco.

The state's expenses cover a range of services. The largest expenses were for Health and Social Services and Education, which accounted for 33% and 28% of total expenditures, respectively. As caseloads and overall health and social services have risen, expenses have seen double-digit growth over last year, estimated at over \$150 million. This is primarily associated with increased Medicaid program costs, including a rise in pharmaceuticals, increased assistance for TANF (Temporary Assistance for Needy Families) and Food Stamp program costs. As a result of the recent court decisions surrounding "adequacy grants" to schools; changes in legislation for such programs as "no child left behind" and "special education"; and capital projects at the University of New Hampshire, education expenses has grown significantly (approximately \$89.0 million). In addition, across all expense categories the state's payroll and benefits increased 8% and 15% respectively, which increased expenditures approximately \$50 million.

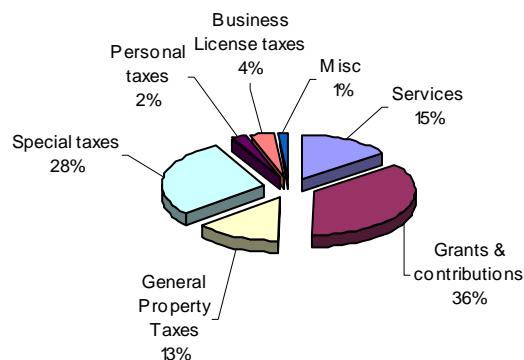
State of New Hampshire's Changes in Net Assets
For Fiscal Years Ending June 30, 2003 and 2002
(In thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues						
Program revenues:						
Charges for services	\$ 558,306	\$ 491,257	\$ 732,686	\$ 726,970	\$ 1,290,992	\$ 1,218,227
Operating grants & contributions	1,194,229	1,003,587			1,194,229	1,003,587
Capital grants & contributions	153,630	200,429			153,630	200,429
General revenues:						
General Property Taxes	504,191	502,604			504,191	502,604
Special taxes	1,070,627	1,059,080			1,070,627	1,059,080
Personal taxes	94,029	84,222			94,029	84,222
Business License taxes	145,422	141,851			145,422	141,851
Interest	7,851	1,289			7,851	1,289
Miscellaneous	48,827	51,030			48,827	51,030
Total revenues	<u>3,777,112</u>	<u>3,535,349</u>	<u>732,686</u>	<u>726,970</u>	<u>4,509,798</u>	<u>4,262,319</u>
Expenses						
General government	250,160	265,861			250,160	265,861
Administration of justice and public protection	283,944	231,309			283,944	231,309
Resource protection and development	128,320	115,670			128,320	115,670
Transportation	488,947	419,048			488,947	419,048
Health and social services	1,516,228	1,358,774			1,516,228	1,358,774
Education	1,301,202	1,212,159			1,301,202	1,212,159
Interest Expense	28,525	30,609			28,525	30,609
Turnpike System			58,080	55,677	58,080	55,677
Liquor Commission			277,135	259,986	277,135	259,986
Sweepstake Commission			157,036	149,791	157,036	149,791
Unemployment Compensation			143,429	120,623	143,429	120,623
Total expenses	<u>3,997,326</u>	<u>3,633,430</u>	<u>635,680</u>	<u>586,077</u>	<u>4,633,006</u>	<u>4,219,507</u>
Increase (decrease) in net assets before transfers	(220,214)	(98,081)	97,006	140,893	(123,208)	42,812
Transfers & Other Items	88,181	141,002	(152,182)	(148,727)	(64,001)	(7,725)
Increase(decrease) in net assets	<u>(132,033)</u>	<u>42,921</u>	<u>(55,176)</u>	<u>(7,834)</u>	<u>(187,209)</u>	<u>35,087</u>
Net assets, beginning of year	1,840,545	1,797,624	592,976	600,810	2,433,521	2,398,434
Net assets, end of year	<u>\$ 1,708,512</u>	<u>\$ 1,840,545</u>	<u>\$ 537,800</u>	<u>\$ 592,976</u>	<u>\$ 2,246,312</u>	<u>\$ 2,433,521</u>

Expenses - Governmental Activities
Fiscal Year Ending June 30, 2003



Revenues - Governmental Activities
Fiscal Year Ending June 30, 2003



Governmental Activities

Governmental activities decreased the state's net assets by \$220.2 million, before transfer and loss activity. Although revenues grew \$241.8 million or 6.8% from prior year, it was not sufficient to cover the \$363.9 million or 10.0% increase in expenses.

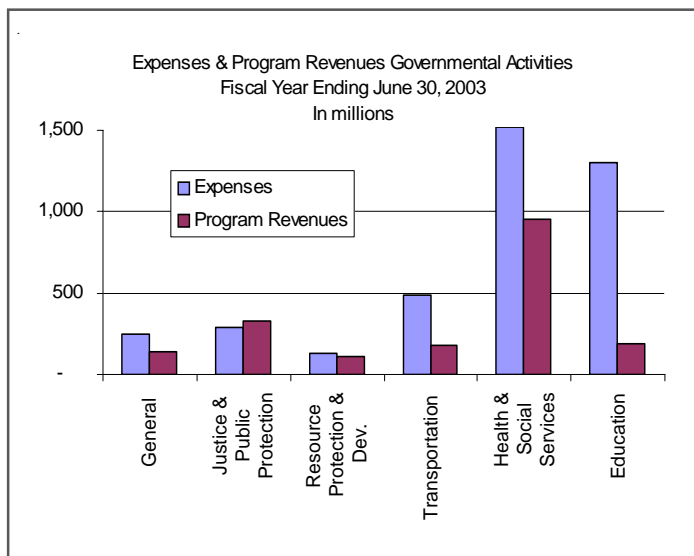
A comparison of the cost of services by function for the state's governmental activities with the related program revenues is shown below. Note that the largest expenses for the state, Health and Social Services and Education, also represent those activities that have the largest gap between expense and program revenues. Since these expenses are least recovered from program revenues, the differences are made up from general revenues, which primarily represent state's taxes, such as the statewide property taxes, business profits tax, business enterprise tax, real estate transfer, tobacco, meals and rooms, interest and dividends, etc.

In reviewing the Education expenses, the largest double-digit increases over the prior fiscal year were from:

- Increased adequacy grant payments to schools (\$16.2 million),
- Increased funding from legislative changes for No Child Left Behind (\$3.3 million) and Special Education (\$3.7 million),
- Increased funding for capital projects at the University of New Hampshire (\$23.1 million), and
- Increased spending for Post Secondary Education (\$2.3 million Job Training Partnership and \$2.0 million New Hampshire Technical Institute).

In reviewing the Health and Human Services spending, three main program areas account for more than half of the growth:

- Increased expenditures associated with the state's 6% Hospital Tax (\$20.4 million),
- Increased provider payments for Medical Assistance (\$21.5 million),
- Approximately \$45.0 million from prior year Pro-Share related expenditures in connection with previously disallowed claims.



Business-Type Activities

Charges for goods and services for the state's combined business type activities were more than adequate to cover the operating expenses and resulted in net assets increasing by \$97.0 million prior to transfers. Business-Type activities include the operations from the Liquor Commission, Sweep-

stakes Commission, Unemployment Compensation Fund and Turnpike Fund. The growth in Liquor sales had a significant contribution to the overall increase in the Business-Type total net assets, where as the unemployment compensation fund had the hardest hit.

Sales growth from the operations of the Liquor Commission resulted in net proceeds of \$85.6 million, a 3.6% increase from prior year, that were transferred to the General Fund to fund the general operations of the state. Net proceeds of \$66.6 million from the Sweepstakes Commission were transferred to the Education Fund and were relatively flat when compared to prior year.

Offsetting the Liquor and Sweepstakes sales, was a significant decrease from the operations of Unemployment Compensation, which lost \$63.6 million this fiscal year due to rising claims consistent with the current prolonged period of economic weakness.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the state uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the state's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the state's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

General Fund

The general fund is the chief operating fund of the state. The total fund equity was \$188.6 million. Prior to year end transfers from the HCF and rainy day funds, the general fund unreserved deficit was \$71.8 million. The HCF transfer was \$33.9 million, eliminating the entire balance and \$37.9 million was transferred from rainy day fund.

Education Fund

The education fund, before year-end transfers, had a surplus of \$21.6 million. The Fund transferred the surplus balance to the general fund to reimburse for prior year deficits in the education fund. Expenditures grew this fiscal year by approximately 1.8% or \$16.2 million as a result of increases in the adequacy education grant payments. Revenues also exceeded prior year from increased tax revenues from the real estate transfer, tobacco and business enterprise taxes.

Proprietary Funds

The state's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Therefore there is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Budget to Actual Schedules for the major governmental funds are in the Required Supplementary Information section beginning on page 65.

General Fund:

The difference between the original budget of \$3,052 million and final budget of \$3,198 million is \$147 million composed of appropriations approved during FY03.

• Energy and Community Services Fuel Assistance contracts	\$ 5
• Education: Eisenhower professional development grant	12
• Special Education/ESEA 6 grant	15
• Instruction ESEA-1 grant	15
• Workforce Opportunity Council grant	8
• HHS: Provider Payments	34
• Hospital Uncompensated Care Pool	23
• Various	35
Total	<u>\$ 147</u>

The largest variances from the final budget to actual amounts, were for special taxes and grant revenues. Special taxes had an unfavorable variance of \$70.0 million due to poor economic conditions and low interest rates. Corporate taxes were down \$44.0 million and the Interest and Dividend taxes were down \$23.0 million. The unfavorable variances in grant revenues are due to timing differences that extend beyond the state's fiscal year and therefore revenue is not drawn down till expenditures are incurred.

Highway Fund:

The difference between the original budget of \$747 million and the final budget of \$716 million is \$(31) million composed of appropriations adjustments approved during FY03.

• Transportation: In order for the Department of Transportation to adjust to the actual Federal, State and Local revenues and expenditures.	\$ (30)
• Various	(1)
Total	<u>\$ (31)</u>

Fish & Game:

The difference between the original budget of \$26 million and the final budget of \$30 million is \$4 million composed of appropriations approved during FY03.

• Heating system renovation	\$ 2
• Various	2
Total	<u>\$ 4</u>

Debt Administration

The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds authorized by the Legislature and Governor and Council. The state may also directly guarantee certain authority or political subdivision obligations. At the end of the current fiscal year, the state had total bonded debt outstanding of \$943.1 million. Of this amount, \$629.5 million are general obligation bonds, which are backed by the full faith and credit of the state. The remainder of the state's bonded debt is Turnpike revenue bonds, which are secured by the specified revenue sources within the Turnpike System.

On August 1, 2002, the state issued \$59.5 million of general obligation bonds. Of this amount \$10.0 million were capital improvement bonds and \$49.5 million were refunding bonds. The interest rates on these serial bonds range from 3.0% to 5.0%. The refunding bonds were used to refund \$49.0 million of general obligation bonds. The proceeds of the refunding were used to purchase U.S. Government Securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. The advance refunding will result in a cash savings of \$3.3 million over the next twenty years and a long-term economic gain of \$3.0 million.

On January 31, 2003, the state issued \$46.8 million of general obligation refunding bonds. The interest rates on these serial bonds range from 4.0% to 5.0%. The refunding bonds were used to refund \$48.1 million of general obligation bonds. The proceeds of the refunding were used to purchase U.S. Government Securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. The advance refunding will result in a cash savings of \$2.8 million over the next eight years and a long-term economic gain of \$2.7 million.

The state does not have any debt limitations, except for contingent debt guarantees, which are detailed in the notes to the financial statements. Additional information on the state's long-term debt obligations can be found in Footnote 5 of the Notes to the Financial Statements.

In December 2003, Fitch Ratings and Standards & Poor's reduced the state's bond rating from AA+ to AA. Moody's Investors Service rating for the state remained at Aa2.

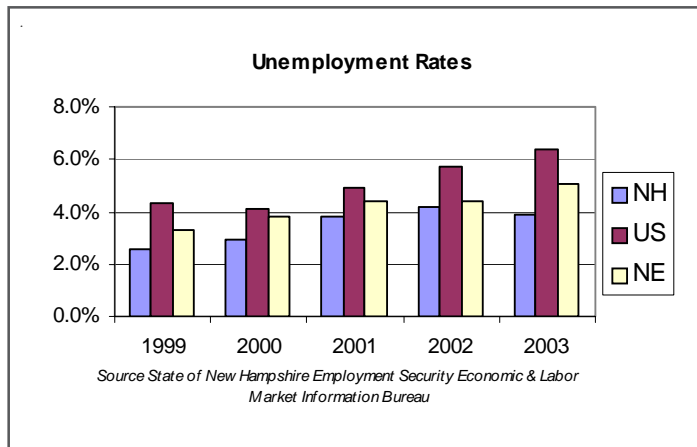
CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

The state's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$4.4 billion. Accumulated depreciation amounts of \$2.1 billion, leaving a net book value of \$2.3 billion, a decrease of \$93.1 million from prior year. During the year, the state transferred \$64.0 million of capital assets to municipalities as a result of a policy change. The investment in capital assets includes equipment, real property, infrastructure, computer software, and construction in progress. Infrastructure assets are items that are normally immovable, of value only to the state and include only roads and bridges. The net book value of the state's infrastructure for its roads and bridges approximates \$1.4 billion, which represents a \$25.9 million or 1.9% increase from the prior year.

Additional information on the state's capital assets can be found in Footnote 4 of the Notes to the Financial Statements.

ECONOMIC CONDITIONS AND OUTLOOK

New Hampshire's economy was slowed by the nation's recession and sluggish recovery. However unemployment in New Hampshire (3.9%) remained below both the US average and New England.



In recent years while many states had devastating revenue losses because of shortfalls in income tax proceeds related to declines in capital gains, New Hampshire's reliance on the statewide property tax and business enterprise tax added stability to its revenue structure. In 2003, revenue from traditional taxes grew 3.9%. Contributing to the state's growth in tax revenue was the continued strong performance in the real estate market this year. However, during the fiscal year it became apparent that the state revenues were falling short of original projections and as a result the state authorized 3 executive orders to reduce spending.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the state's finances for all of New Hampshire citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the state's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State of New Hampshire, Department of Administrative Services, Division of Accounting Services, 25 Capitol Street, State House Annex Room 310, Concord, NH 03301.

Basic Financial Statements

24 • NEW HAMPSHIRE
STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current Assets:				
Cash and Cash Equivalents.....	\$ 263,470	\$ 291,046	\$ 554,516	\$ 110,789
Cash and Cash Equivalents-Restricted.....		13,185	13,185	13,803
Receivables (Net of Allowances for Uncollectibles).....	433,193	19,326	452,519	39,011
Other Receivables-Restricted.....				7,491
Internal Balances.....	(4,748)	4,748		
Due from Component Units.....	1,063		1,063	
Inventories.....	10,926	22,756	33,682	
Other Current Assets.....	3	114	117	48,524
Total Current Assets.....	703,907	351,175	1,055,082	219,618
Noncurrent Assets:				
Receivables (Net of Allowances for Uncollectibles).....	192,306		192,306	30,548
Due from Component Units.....	45,086		45,086	
Investments.....	18,293		18,293	181,353
Investments-Restricted.....		55,244	55,244	
Bond Issue Costs.....		2,950	2,950	
Other Assets.....				3,488
Capital Assets:				
Land & Land Improvements.....	379,947	96,283	476,230	377
Buildings & Building Improvements.....	484,240	22,398	506,638	90,428
Equipment & Computer Software.....	136,259	24,769	161,028	507,748
Construction in Progress.....	180,807	44,595	225,402	1,439
Infrastructure.....	2,503,567	510,088	3,013,655	
Less: Allowance for Depreciation	(1,905,760)	(177,858)	(2,083,618)	(25,366)
Net Capital Assets.....	1,779,060	520,275	2,299,335	574,626
Total Noncurrent Assets.....	2,034,745	578,469	2,613,214	790,015
Total Assets.....	2,738,652	929,644	3,668,296	1,009,633
LIABILITIES				
Current Liabilities:				
Accounts Payable.....	192,932	31,651	224,583	38,480
Accrued Payroll.....	29,183	1,394	30,577	7,289
Due to Primary Government.....				1,063
Deferred Revenue.....	34,872	2,778	37,650	28,608
Unclaimed Prizes.....	8,659	2,381	11,040	
General Obligation Bonds Payable.....	67,538	3,975	71,513	
Compensated Absences Payable & Uninsured Claims...	18,435	891	19,326	
Bond Anticipated Notes.....	50,000		50,000	
Other Liabilities.....	3,183	9,625	12,808	8,310
Other Liabilities-Restricted.....	3,297	4,166	7,463	
Revenue Bonds Payable-Restricted.....		8,110	8,110	
Other Liabilities.....				130
Total Current Liabilities.....	408,099	64,971	473,070	83,880
Noncurrent Liabilities:				
Net General Obligation Bonds Payable	543,540	14,408	557,948	
Revenue Bonds Payable		305,534	305,534	192,768
Compensated Absences Payable & Uninsured Claims..	70,339	5,604	75,943	67,254
Due to Primary Government.....				45,086
Other Noncurrent Liabilities.....	8,162	1,327	9,489	54,000
Total Noncurrent Liabilities.....	622,041	326,873	948,914	359,108
Total Liabilities.....	1,030,140	391,844	1,421,984	442,988

The notes to the financial statements are an integral part of this statement.

STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
NET ASSETS				
Invested in Capital Assets, net of related debt.....	\$ 1,169,486	\$ 155,743	\$ 1,325,229	\$ 353,610
Restricted for Debt Repayments.....		41,086	41,086	
Restricted for Unemployment Benefits.....		260,477	260,477	
Restricted for Permanent Funds.....	9,415		9,415	
Restricted for Capital Assets from Unspent Bond Proceeds.....	10,250	27,343	37,593	
Restricted for Environmental Loans.....	208,450		208,450	
Restricted for Revenue Stabilization.....	17,344		17,344	
Restricted Component Unit Net Assets.....				184,418
Unrestricted Net Assets.....	293,567	53,151	346,718	28,617
Total Net Assets.....	\$ 1,708,512	\$ 537,800	\$ 2,246,312	\$ 566,645

The notes to the financial statements are an integral part of this statement

26 • NEW HAMPSHIRE
STATE OF NEW HAMPSHIRE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government.....	\$ 250,160	\$ 98,653	\$ 44,936	
Administration of Justice & Public Protection.....	283,944	260,782	69,142	
Resource Protection and Development.....	128,320	60,752	50,918	\$ 3
Transportation.....	488,947	5,211	18,827	153,332
Health and Social Services.....	1,516,228	96,823	859,834	
Education.....	1,301,202	36,085	150,572	295
Interest Expense.....	28,525			
Total Governmental Activities.....	3,997,326	558,306	1,194,229	153,630
Business-type Activities:				
Turnpike System.....	58,080	66,830		
Liquor Commission.....	277,135	362,421		
Sweepstakes Commission.....	157,036	223,605		
Unemployment Compensation.....	143,429	79,830		
Total Business-type Activities.....	635,680	732,686		
Total Primary Government.....	\$ 4,633,006	\$ 1,290,992	\$ 1,194,229	\$ 153,630
COMPONENT UNITS				
University System of New Hampshire.....	\$ 509,167	\$ 289,911	\$ 116,962	\$ 9,745
Business Finance Authority.....	2,191	2,368		
Pease Development Authority.....	13,041	13,058		
Community Development Finance Authority.....	1,512	912	244	
Total Component Units.....	\$ 525,911	\$ 306,249	\$ 117,206	\$ 9,745

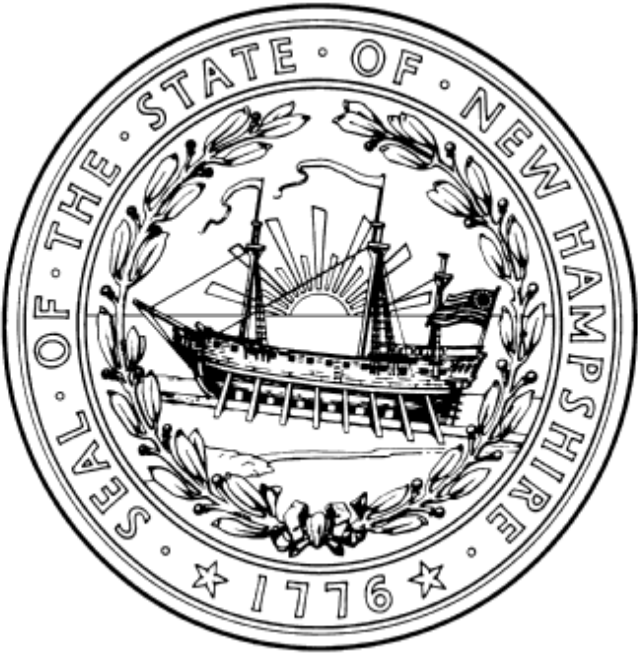
General Revenues:

General Property Taxes.....
Special Taxes.....
Personal Taxes.....
Business License Taxes.....
Interest & Investment Income.....
Miscellaneous.....
Payments from State of New Hampshire.....
Transfers - Internal Activities.....
Loss On Transfer of Assets to Municipalities.....
Loss On Extinguishment of Debt.....
Total General Revenues and Transfers.....
Changes in Net Assets.....
Net Assets - Beginning
Net Assets - Ending.....

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (106,571)		\$ (106,571)	
45,980		45,980	
(16,647)		(16,647)	
(311,577)		(311,577)	
(559,571)		(559,571)	
(1,114,250)		(1,114,250)	
(28,525)		(28,525)	
(2,091,161)		(2,091,161)	
	\$ 8,750	8,750	
	85,286	85,286	
	66,569	66,569	
	(63,599)	(63,599)	
	97,006	97,006	
(2,091,161)	97,006	(1,994,155)	
			\$ (92,549)
			177
			17
			(356)
			(92,711)
504,191		504,191	
1,070,627		1,070,627	
94,029		94,029	
145,422		145,422	
7,851		7,851	12,738
48,827		48,827	
			109,157
152,182	(152,182)		
(64,001)		(64,001)	
			(280)
1,959,128	(152,182)	1,806,946	121,615
(132,033)	(55,176)	(187,209)	28,904
1,840,545	592,976	2,433,521	537,741
\$ 1,708,512	\$ 537,800	\$ 2,246,312	\$ 566,645

The notes to the financial statements are an integral part of this statement



Fund Financial Statements

Governmental Funds

General Fund: *The General Fund is the state's primary operating fund and accounts for all financial transactions not accounted for in any other fund.*

Highway Fund: *Under the state Constitution, all revenues in excess of the necessary cost of collection and administration accruing to the state from motor vehicle registration fees, operators' licenses, gasoline road toll, or any other special charges or taxes with respect to the operation of motor vehicles or the sale or consumption of motor vehicle fuels are appropriated and used exclusively for the construction, reconstruction, and maintenance of public highways within this state, including the supervision of traffic thereon and for the payment of the interest and principal of bonds issued for highway purposes. All such revenues, together with federal grants-in-aid received by the state for highway purposes, are credited to the Highway Fund. While the principal and interest on state highway bonds are charged to the Highway Fund, the assets of this fund are not pledged to such bonds.*

Education Trust Fund: *The Education Trust Fund was established to distribute adequate education grants to school districts. Funding for the grants comes from a variety of sources, including the statewide property and utility taxes, incremental portions of existing business and tobacco taxes, sweepstakes funds, and tobacco settlement funds.*

30 • NEW HAMPSHIRE
STATE OF NEW HAMPSHIRE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	General	Highway	Education	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 137,057	\$ 98,179	\$ 8,004	\$ 20,230	\$ 263,470
Investments	9,174			9,119	18,293
Receivables (Net of Allowances for Uncollectibles)....	357,317	33,228	15,724	10,780	417,049
Due from Other Funds	7,040		569		7,609
Due from Components.....	46,149				46,149
Inventories.....	5,661	4,588		677	10,926
Other Assets.....	3				3
Loans and Notes Receivables	208,450				208,450
Total Assets	<u>\$ 770,851</u>	<u>\$ 135,995</u>	<u>\$ 24,297</u>	<u>\$ 40,806</u>	<u>\$ 971,949</u>
LIABILITIES					
Accounts Payable.....	\$ 166,531	\$ 19,646		\$ 6,755	\$ 192,932
Accrued Payroll.....	25,334	3,325		524	29,183
Due to Other Funds	5,317		\$ 5,015	2,025	12,357
Deferred Revenue	373,185	5,206	9,500	2,409	390,300
Unclaimed Property and Prizes.....	8,659				8,659
Bond Anticipated Notes.....				50,000	50,000
Other Liabilities.....	3,183				3,183
Total Liabilities.....	<u>582,209</u>	<u>28,177</u>	<u>14,515</u>	<u>61,713</u>	<u>686,614</u>
FUND BALANCES					
Reserved for Encumbrances.....	130,813	115,841	8	47,978	294,640
Reserved for Inventories.....	5,661	4,588		677	10,926
Reserved for Unexpended Appropriations.....	34,824		9,774	63,292	107,890
Reserved for Revenue Stabilization.....	17,344				17,344
Reserved for Permanent Trust				9,415	9,415
Unreserved, Undesignated (Deficit)		(12,611)			(12,611)
Unreserved, Fish & Game Fund.....				2,629	2,629
Unreserved (Deficit), Capital Project Fund.....				(144,898)	(144,898)
Total Fund Balances (Deficit).....	<u>188,642</u>	<u>107,818</u>	<u>9,782</u>	<u>(20,907)</u>	<u>285,335</u>
Total Liabilities and Fund Balances.....	<u>\$ 770,851</u>	<u>\$ 135,995</u>	<u>\$ 24,297</u>	<u>\$ 40,806</u>	<u>\$ 971,949</u>

The notes to the financial statements are an integral part of this statement

STATE OF NEW HAMPSHIRE
RECONCILIATION OF THE BALANCE SHEET-
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

Total fund balances for governmental funds	\$	285,335
--	----	---------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		1,779,060
--	--	-----------

Certain tax revenues and loans are earned but not available and therefore are deferred in the funds:

Business Taxes, I&D, Utility Property, Insurance Tax	98,286
Indigent Representation Advances	2,543
SRF Loans	208,450
Component Unit Loans	46,149
Total	<u>355,428</u>

Certain long term liabilities are not payable by current available resources and therefore are not reported in the funds:

Compensated Absences and Workers Compensation	(88,774)
Capital Lease Obligations	(8,162)
Bond Payables	(611,078)
Interest Payable	(3,297)
Total Long Term Liabilities	<u>(711,311)</u>

Net Assets of Governmental Activities	\$	<u><u>1,708,512</u></u>
---------------------------------------	----	-------------------------

STATE OF NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	General	Highway	Education	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General Property Taxes.....	\$ 395		\$ 504,496		\$ 504,891
Special Taxes.....	849,950		204,627		1,054,577
Personal Taxes.....	67,052		26,977		94,029
Business License Taxes.....	17,551	\$ 145,378		\$ 44	162,973
Non-Business License Taxes.....	85,839	69,607		8,318	163,764
Fees.....	96,652	18,104		1,510	116,266
Fines, Penalties and Interest.....	21,729	793		141	22,663
Grants from Federal Government.....	1,055,994	135,225		45,004	1,236,223
Grants from Private and Local Sources.....	107,849	9,633		496	117,978
Rents and Leases.....	1,333				1,333
Interest, Premiums and Discounts.....	9,988	1,180		532	11,700
Sale of Commodities.....	11,178	200		405	11,783
Sale of Service.....	90,084	4,228		2	94,314
Assessments.....	14,322				14,322
Grants from Other Agencies.....	4,053	400		191	4,644
Miscellaneous.....	116,260	3,258	40,000	404	159,922
Total Revenues.....	2,550,229	388,006	776,100	57,047	3,771,382
EXPENDITURES					
Current:					
General Government.....	210,378		1,097		211,475
Administration of Justice and Public Protection.....	250,700	3,851			254,551
Resource Protection and Development.....	143,879			18,127	162,006
Transportation.....	13,998	222,481			236,479
Health and Social Services.....	1,505,032			623	1,505,655
Education.....	365,082		897,954		1,263,036
Debt Service.....	82,448	6,823		320	89,591
Capital Outlay.....	34,609	151,014		130,780	316,403
Total Expenditures.....	2,606,126	384,169	899,051	149,850	4,039,196
Excess (Deficiency) of Revenues					
Over (Under) Expenditures.....	(55,897)	3,837	(122,951)	(92,803)	(267,814)
OTHER FINANCING SOURCES (USES)					
Transfers In	824		66,840	1,132	68,796
Transfers in from Enterprise Funds.....	85,613		66,569		152,182
Transfers Out.....	(63,133)	(648)	(5,015)		(68,796)
Capital Lease Proceeds.....	1,159				1,159
Payments to Refunding Bond Escrow Agent.....	(97,830)				(97,830)
G.O. Bond Issuance and Premiums.....	97,830			10,559	108,389
Total Other Financing Sources (Uses).....	24,463	(648)	128,394	11,691	163,900
Excess (Deficiency) of Revenues and Other Sources					
Over (Under) Expenditures and Other Uses.....	(31,434)	3,189	5,443	(81,112)	(103,914)
Fund Balances - July 1	219,769	105,842	4,339	60,090	390,040
Change in Reserve for Inventory.....	307	(1,213)		115	(791)
Fund Balances (Deficit)- June 30.....	\$ 188,642	\$ 107,818	\$ 9,782	\$ (20,907)	\$ 285,335

The notes to the financial statements are an integral part of this statement

**STATE OF NEW HAMPSHIRE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)**

Net change in fund balance - total governmental funds	\$ (104,705)
---	--------------

Revenue recognized on the Statement of Activities that do not provide current financial resources on the fund statements resulted in a net decrease from prior year	(19,347)
---	----------

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Land & Land Improvements	(85,472)	
Buildings & Building Improvements	19,282	
Equipment & Computer Software	15,651	
Construction in Progress	(15,032)	
Infrastructure	39,430	
Accumulated Depreciation	<u>(69,011)</u>	(95,152)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments exceeded proceeds.

Bond Proceeds and Premiums Received	(108,389)	
Payments to Refunding Bond Escrow Agent	97,830	
Repayment of Bond Principal and Interest	68,300	
Accretion of Bonds Payable	(8,782)	
Accrued Interest and Amortization	<u>1,547</u>	50,506

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. Elimination of the following expenses resulted in a net increase from prior year:

Changes in Compensated Absences and Workers Compensation	(6,538)	
Legal Contingency	5,000	
Change in Capital Lease Obligation	(181)	
SRF loan program	<u>38,384</u>	36,665

Change in net assets of governmental activities	<u>\$ (132,033)</u>
---	---------------------

The notes to the financial statements are an integral part of this statement



Proprietary-Enterprise Fund Financial Statements

Turnpike System: The state constructs, maintains, and operates transportation toll facilities. The Legislature has established a 10-year state highway construction and reconstruction plan and authorized major expansion and improvement projects as part of a Capital Improvement Program. These include a partial circumferential highway around the City of Nashua and other projects that will provide major improvements to the Central Turnpike from Bedford to Nashua and include new interchanges, widening, and a toll plaza. Additional projects are planned that will provide safety improvements to the existing Turnpike System and increase the Turnpike System's capacity.

Liquor Commission: Receipts from operations of the Liquor Commission are transferred to the General Fund on a daily basis. The General Fund advances cash to the Liquor Commission for the purchase of liquor inventory. By statute, all liquor and beer sold in the state must be sold through a sales and distribution system operated by the state Liquor Commission, comprising three members appointed by the Governor with the consent of the Executive Council. The Commission makes all liquor purchases directly from the manufacturers and importers and operates state liquor stores in cities and towns that accept the provisions of the local option law. The Commission is authorized to lease and equip stores, warehouses, and other merchandising facilities for liquor sales, to supervise the construction of state-owned liquor stores at various locations in the state, and to sell liquor through retail outlets as well as direct sales to restaurants, hotels, and other organizations. The Commission also charges permit and license fees for the sale of beverages through private distributors and retailers and an additional fee of 30 cents per gallon on beverages sold by such retailers.

Sweepstakes Commission: The state sells lottery games through some 1,350 agents, including state liquor stores, licensed racetracks, and private retail outlets. Through the sale of lottery tickets, revenue is generated for prize payments and commission expenses, with the net income used for aid to education. This net income is transferred to the Department of Education in the General Fund and then transferred to the local school districts.

New Hampshire Unemployment Trust Fund: receives contributions from employers and provides benefits to eligible unemployed workers.

**STATE OF NEW HAMPSHIRE
STATEMENT OF NET ASSETS
PROPRIETARY-ENTERPRISE FUNDS
JUNE 30, 2003
(Expressed in Thousands)**

ASSETS**Current Assets:**

	Turnpike System	Liquor Commission	Sweepstakes Commission	Unemployment Compensation	Total
Cash and Cash Equivalents.....	\$ 27,221	\$ 3,557	\$ 1,524	\$ 258,744	\$ 291,046
Cash and Cash Equivalents-Restricted.....	13,185				13,185
Receivables (Net of Allowances for Uncollectibles).....	1,062	4,104	3,347	10,813	19,326
Due from Other Funds.....		5,317			5,317
Inventories.....	262	21,804	690		22,756
Other Current Assets.....			114		114
Total Current Assets.....	41,730	34,782	5,675	269,557	351,744

Noncurrent Assets:

Investments-Restricted.....	55,244				55,244
Bond Issue Costs.....	2,950				2,950
Capital Assets:					
Land.....	93,352	2,055			95,407
Land Improvements.....		876			876
Buildings.....	4,786	12,234			17,020
Building Improvements.....		5,378			5,378
Equipment.....	15,208	9,041	520		24,769
Construction in Progress.....	44,595				44,595
Infrastructure.....	510,088				510,088
Less: Allowance for Depreciation and Amortization.....	(162,835)	(14,692)	(331)		(177,858)
Net Capital Assets.....	505,194	14,892	189		520,275
Total Noncurrent Assets.....	563,388	14,892	189		578,469
Total Assets.....	605,118	49,674	5,864	269,557	930,213

LIABILITIES**Current Liabilities:**

Accounts Payable.....	\$ 1,293	\$ 28,931	\$ 1,427		\$ 31,651
Accrued Payroll.....	464	834	96		1,394
Due to Other Funds.....			569		569
Deferred Revenue.....		1,825	953		2,778
Unclaimed Prizes.....			2,381		2,381
General Obligation Bonds Payable.....	3,975				3,975
Revenue Bonds Payable-Restricted.....	8,110				8,110
Accrued Interest Payable-Restricted.....	4,166				4,166
Compensated Absences Payable & Uninsured Claims.....	260	522	109		891
Other Liabilities.....	545			\$ 9,080	9,625
Total Current Liabilities.....	18,813	32,112	5,535	9,080	65,540

Noncurrent Liabilities:

General Obligation Bonds Payable.....	14,408				14,408
Revenue Bonds Payable.....	305,534				305,534
Compensated Absences Payable & Uninsured Claims.....	2,605	2,670	329		5,604
Other Noncurrent Liabilities.....		1,327			1,327
Total Noncurrent Liabilities.....	322,547	3,997	329		326,873
Total Liabilities.....	341,360	36,109	5,864	9,080	392,413

NET ASSETS

Invested in Capital Assets, net of related debt.....	141,989	13,565	189		155,743
Restricted for Debt Repayments.....	41,086				41,086
Restricted for Capital Assets from Unspent Bond Proceeds..	27,343				27,343
Restricted for Unemployment Benefits.....				260,477	260,477
Unrestricted Net Assets (Deficit).....	53,340		(189)		53,151
Total Net Assets.....	\$ 263,758	\$ 13,565	\$	\$ 260,477	\$ 537,800

The notes to the financial statements are an integral part of this statement

STATE OF NEW HAMPSHIRE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN PROPRIETARY-ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Turnpike System	Liquor Commission	Sweepstakes Commission	Unemployment Compensation	Total
<u>OPERATING REVENUES</u>					
Charges for Sales and Services.....		\$ 344,734	\$ 223,239	\$ 62,343	\$ 630,316
Toll Revenue Pledged for Repaying Revenue Bonds....	\$ 65,389				65,389
Total Operating Revenue.....	65,389	344,734	223,239	62,343	695,705
<u>OPERATING EXPENSES</u>					
Cost of Sales and Services.....		249,850			249,850
Lottery Prize Awards.....			150,220		150,220
Unemployment Insurance Benefits.....				143,429	143,429
Administration.....	30,844	25,667	6,729		63,240
Depreciation.....	11,061	1,618	87		12,766
Total Operating Expenses.....	41,905	277,135	157,036	143,429	619,505
Operating Income (Loss).....	23,484	67,599	66,203	(81,086)	76,200
<u>NONOPERATING REVENUES (EXPENSES)</u>					
Licenses.....		3,272			3,272
Beer Taxes.....		12,045			12,045
Investment Income.....	1,195		366	17,487	19,048
Miscellaneous.....	246	2,370			2,616
Interest on Bonds.....	(15,915)				(15,915)
Amortization of Bond Issuance Costs.....	(260)				(260)
Total Nonoperating Revenues (Expenses).....	(14,734)	17,687	366	17,487	20,806
Income (Loss) Before Operating Transfers.....	8,750	85,286	66,569	(63,599)	97,006
Transfers Out to Governmental Fund.....		(85,613)	(66,569)		(152,182)
Change in Net Assets.....	8,750	(327)		(63,599)	(55,176)
Net Assets - July 1.....	255,008	13,892		324,076	592,976
Net Assets - June 30.....	\$ 263,758	\$ 13,565	\$	\$ 260,477	\$ 537,800

The notes to the financial statements are an integral part of this statement

**STATE OF NEW HAMPSHIRE
STATEMENT OF CASH FLOWS
PROPRIETARY-ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)**

	Turnpike System	Liquor Commission	Sweepstakes Commission	Unemployment Compensation	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from federal and local agencies.....				\$ 21,719	\$ 21,719
Receipts from customers.....	\$ 65,420	\$ 345,130	\$ 116,979	40,837	568,366
Payments to employees.....	(12,250)	(18,206)	(1,820)		(32,276)
Payments to suppliers.....	(18,801)	(255,822)	(11,447)		(286,070)
Payments to prize winners.....			(37,441)		(37,441)
Claims paid.....				(144,866)	(144,866)
Net cash provided (used) by operating activities.....	34,369	71,102	66,271	(82,310)	89,432
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to Other Funds.....		(90,238)	(66,647)		(156,885)
Proceeds from Collection of Licenses and Beer Tax.....		15,317			15,317
Net Cash Used for Noncapital and Related Financing Activities.....		(74,921)	(66,647)		(141,568)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition, Disposal and Construction of Capital Assets.....	(12,052)	(327)	9		(12,370)
Grant Contributions.....	231				231
Interest Paid on Revenue and General Obligation Bonds.....	(18,399)				(18,399)
Principal Paid on Bonds.....	(11,678)				(11,678)
Proceeds on Bond Issuance/Refunding.....	3,934				3,934
Contributions from Other Funds.....		327			327
Net Cash Provided (Used) for Capital and Related Financing Activities.....	(37,964)		9		(37,955)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of Investments.....	(10,567)				(10,567)
Proceeds from Maturities of Investments.....	26,379				26,379
Interest and Other Income.....	2,144	2,710	357	17,487	22,698
Net Cash Provided by Investing Activities.....	17,956	2,710	357	17,487	38,510
Net Increase (Decrease) in Cash and Cash Equivalents.....	14,361	(1,109)	(10)	(64,823)	(51,581)
Cash and Cash Equivalents - July 1.....	26,045	4,666	1,534	323,567	355,812
Cash and Cash Equivalents - June 30.....	\$ 40,406	\$ 3,557	\$ 1,524	\$ 258,744	\$ 304,231
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss).....	\$ 23,484	\$ 67,599	\$ 66,203	\$ (81,086)	\$ 76,200
Adjustments to Reconcile Operating Income to Net Cash					
Provided (Used) by Operating Activities:					
Depreciation.....	11,061	1,618	87		12,766
Change in Operating Assets and Liabilities:					
(Increase) Decrease in Receivables.....	31	466	(589)	(3,419)	(3,511)
(Increase) Decrease in Inventories.....	152	585	(42)		695
(Increase) Decrease in Other Current Assets.....			(87)		(87)
Increase (Decrease) in Accounts Payable and other Accruals....	(359)	904	626	2,195	3,366
Increase (Decrease) in Deferred Revenue.....		(70)	73		3
Net Cash Provided (Used) by Operating Activities.....	\$ 34,369	\$ 71,102	\$ 66,271	\$ (82,310)	\$ 89,432

The notes to the financial statements are an integral part of this statement

Fiduciary Funds Financial Statements

Pension Trust Funds: New Hampshire Retirement System:

The New Hampshire Retirement System (NHRS) is the administrator of a cost-sharing multiple-employer contributory pension plan and trust established on July 1, 1967, and is intended to meet the requirements of a qualified tax-exempt organization within the meaning of section 401(a) and section 501(a) of the United States Internal Revenue Code. Participating employers include the employees of the state government of New Hampshire, certain cities and towns, all counties, and various school districts. The NHRS is a component unit of the state.

Private-Purpose Trust Funds: *Private-Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.*

Investment Trust Fund: *The investment trust fund represents the external portion of the New Hampshire Public Deposit Investment Pool (NHPDIP). The NHPDIP has been established, in accordance with RSA 383:22-24, for the purpose of investing funds of the state of New Hampshire, funds under the custody of all governmental units, pooled risk management programs established pursuant to RSA 5-B, agencies, authorities, commissions, boards, political subdivisions, and all other public units within, or instrumentalities of the state of New Hampshire. In accordance with GAAP, the external portion of the NHPDIP is reported as an investment trust fund in the Fiduciary Funds using the economic resources measurement focus and accrual basis of accounting. The internal portion of the pool is reported in the general fund. NHPDIP financial statements can be obtained by contacting NHPDIP at 497 Belknap Mountain Rd, Gilford NH 03249.*

Agency Funds: *Assets received by the state as an agent for other governmental units, other organizations, or individuals are accounted for as agency funds. Payroll taxes collected on behalf of the federal government and employee voluntary deductions for deposit to the State's deferred compensation plan are two of the larger agency funds of the state.*

STATE OF NEW HAMPSHIRE
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

	Pension Trust Funds	Private-purpose Trust Funds	Investment Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents.....	\$ 4,319	\$ 6,490		\$ 9,968
Cash Collateral on Security Lending.....	432,162			
Total Cash.....	436,481	6,490		9,968
Receivables:				
Due from Employers.....	6,143			
Due from State.....	3,602			
Due from Plan Members.....	9,999			
Due from Brokers for Securities Sold.....	64,145			
Interest and Dividends.....	13,283			
Other	558	112	\$ 81	
Total Receivables.....	97,730	112	81	
Investments.....	3,945,405	5,039	322,158	273,665
Other Assets.....	3,171			
Total Assets.....	4,482,787	11,641	322,239	283,633
LIABILITIES				
Securities Lending Collateral.....	432,162			
Management Fees and Other Payables.....	5,432		114	
Due to Brokers for Securities Purchased.....	143,512			
Custodial Funds Payable.....				283,606
Other Liabilities.....		73		27
Total Liabilities.....	581,106	73	114	283,633
Net Assets Held in Trust for Benefits & Other Purposes.....	\$ 3,901,681	\$ 11,568	\$ 322,125	

RECONCILIATION OF NET ASSETS HELD IN TRUST:

Employees' Pension Benefits.....	\$ 3,486,635		
Employees' Postemployment Healthcare Benefits.....	415,046		
Net Assets for Pool Participants in			
External Investment Pool.....		\$ 322,125	
Other Purposes.....		\$ 11,568	
Net Assets Held in Trust for Benefits & Other Purposes.....	\$ 3,901,681	\$ 11,568	\$ 322,125

STATE OF NEW HAMPSHIRE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

ADDITIONS	Pension Trust Fund	Private-purpose Trust Funds	Investment Trust Funds
Contributions:			
Employer	\$ 70,924		
State Contributions on Behalf of Local Employers.....	17,553		
Total Employer Contributions.....	88,477		
Plan Members.....	117,412		
Post Retirement Medical Plan Contributions			
on Behalf of Employers.....	29,305		
From Participants.....		\$ 13,699	\$ 343,944
From Gifts, Bequests, and Endowments.....		1,966	
Total Contributions.....	235,194	15,665	343,944
Investment Income:			
From Investing Activities:			
Net (Depreciation) in Fair Value of Investments.....	(58,665)		
Interest Income.....	57,063	81	
Dividends.....	33,911		
Alternative Investment Income.....	4,423		
Commercial Real Estate Operating Income.....	37,850		
Net Increase in Joint Value from Investment Income.....			4,375
Total Income (Loss) from Investing Activities.....	74,582	81	4,375
Less: Investment Activity Expenses:			
Investment Management Fees.....	22,610		
Custodial Fees.....	467		
Investment Advisor Fees.....	325		
Total Investment Activity Expenses.....	23,402		
Total Net Income (Loss) from Investing Activities.....	51,180	81	4,375
From Securities Lending Activities:			
Security Lending Income.....	6,264		
Less: Security Lending Borrower Rebates.....	4,801		
Less: Security Lending Management Fees.....	439		
Net Income from Securities Lending Activities.....	1,024		
Total Net Investment Income (Loss).....	52,204	81	4,375
Asset Transfer from Pension Plan.....	1,551		
Other.....	971	708	
Total Additions.....	289,920	16,454	348,319
DEDUCTIONS			
Benefits/Distributions to Participants.....	272,632	11,849	4,375
Refunds of Contributions.....	15,223		
Administrative Expense.....	5,038		
Post Retirement Medical Plan Contributions to Pension			
Plan on Behalf of Employers.....	29,305		
Consulting Fees.....	661		
Asset Transfer to Postretirement Medical Plan	1,551		
Other.....	304	159	319,420
Total Deductions.....	324,714	12,008	323,795
Change in Net Assets.....	(34,794)	4,446	24,524
NET ASSETS HELD IN TRUST FOR BENEFITS & OTHER PURPOSES			
Beginning of the Year.....	3,936,475	7,122	297,601
End of the Year.....	\$ 3,901,681	\$ 11,568	\$ 322,125

The notes to the financial statements are an integral part of this statement

Notes to the Basic Financial Statements

INDEX TO NOTES

1. Summary of Significant Accounting Policies	
A. Reporting Entity.....	43
B. Government-Wide and Fund Financial Statements.....	44
C. Measurement Focus and Basis of Accounting.....	44
D. Cash Equivalents.....	45
E. Investments.....	45
F. Receivables.....	45
G. Inventories.....	45
H. Restricted Assets.....	46
I. Capital Assets.....	46
J. Deferred Revenue.....	46
K. Compensated Absences.....	46
L. Encumbrances.....	46
M. Fund Balances.....	46
N. Capital Outlays.....	47
O. Bond Discounts, Premiums, and Issuance Costs.....	47
P. Revenues and Expenditures/Expenses.....	47
Q. Interfund Activity and Balances.....	47
R. Capital Projects.....	47
S. Budget Control and Reporting.....	47
T. Use of Estimates.....	48
2. Cash, Cash Equivalents, and Investments.....	48
3. Receivables.....	51
4. Capital Assets.....	52
5. Long-Term Debt.....	53
6. Risk Management and Insurance.....	55
7. Interfund Receivables and Payables.....	56
8. Interfund Transfers.....	56
9. Undesignated Fund Balance (Deficit) and Contractual Commitments.....	57
10. Employee Benefit Plans.....	57
11. Contingent and Limited Liabilities.....	59
12. Condensed Statements for Discretely Presented Component Units.....	60
13. Lease Commitments.....	61
14. Litigation.....	61
15. Subsequent Event.....	63

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of New Hampshire (the state) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

For financial reporting purposes, the state's reporting entity includes all funds, organizations, agencies, boards, commissions, authorities and the state has considered all potential component units for which the state is financially accountable and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the state, as the primary government, has appointed a voting majority of an organization's governing body and (1) has the ability to impose its will on that organization or (2) there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the state. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the state, are deemed to be related organizations. The nature and relationship of the state's component units and related organizations are disclosed in the following section.

Discrete Component Units:

Discrete component units are entities, which are legally separate from the state, but for which the state is financially accountable for financial reporting purposes, or whose relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. Complete audited financial statements of the individual component units can be obtained from the respective entities.

The component unit columns of the government-wide financial statements include the financial data of the following entities:

Major Component Unit

University System of New Hampshire - The University System of New Hampshire (University System) is a body corporate and politic with a governing board of twenty-five members. A voting majority is held by the state

through the eleven members appointed by the Governor and Executive Council and three state officials serving as required by law. These state officials are the Governor, the Commissioner of the Department of Education, and the Commissioner of the Department of Agriculture. The remaining board members represent the university and colleges of the system, the alumni, and the student body. The University System funds its operations through tuition and fees, government grants and contracts, auxiliary operations, and state appropriations. USNH financials can be obtained by contacting, USNH at 18 Garrison Avenue, Durham NH 03824.

Non-major Component Units

Business Finance Authority of the State of New Hampshire - The Business Finance Authority (BFA) is a body corporate and politic with a governing board of fourteen members. The board consists of nine members appointed by the Governor with the consent of the Executive Council. The remaining members include two state Representatives, two Senators, and the Treasurer. The state currently guarantees outstanding loans and principal on bonds of the BFA as of June 30, 2003, which creates the potential for the BFA to impose a financial burden on the state. BFA's financials can be obtained by contacting, BFA at 14 Dixon Avenue, Suite 101, Concord NH 03301.

The Community Development Finance Authority - The Community Development Finance Authority (CDFA) is a body corporate and politic organized as a nonprofit corporation under Revised Statutes Annotated (RSA) 292. The governing board of eleven members is made up of the Commissioner of the Department of Resources and Economic Development or designee and ten public members appointed by the Governor and Executive Council as follows: four representatives of community development corporations or other nonprofit organizations engaged in community development activities, one representative of organized labor, two representatives of small business and the financial community, one representative of employment training programs, and two representatives of private financial institutions. An investment tax credit equal to 75 percent of the contribution made to the CDFA during the contributor's tax year is allowed against certain taxes imposed by the state. In accordance with RSA 162-L:10, the total credits allowed shall not exceed \$5.0 million in any state fiscal year. CDFA's financials can be obtained by contacting CDFA at, CDFA 14 Dixon Avenue, Suite 101, Concord NH 03301.

Pease Development Authority - The Pease Development Authority (PDA) is a body corporate and politic with a governing body of seven members. Four members are appointed by the Governor and state legislative leadership, and three members are appointed by the city of Portsmouth and the town of Newington. The state currently guarantees outstanding loans and principal on bonds of the PDA and has issued bonds on behalf of the PDA as of June 30, 2003, which creates the potential for the PDA to impose a financial burden on the state. In addition, the state has made several loans to the PDA. PDA's financials can be obtained by contacting PDA at, 360 Corporate Drive, Portsmouth NH 03801.

Pursuant to Chapter 290 Laws of 2001, the New Hampshire State Port Authority, a former department of the primary state government, was transferred to the PDA effective July 1, 2001.

Fiduciary Component Unit:

The state's fiduciary component unit consists of the Pension Trust Fund, which represents the assets and liabilities of the following:

New Hampshire Retirement System - The New Hampshire Retirement System (System) is a contributory pension plan and trust qualified as a tax exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. It is a defined benefit plan providing disability, death, and retirement protection to its members, which include full-time employees of the state and substantially all school teachers, firefighters, and police officers within the state. Full-time employees of political subdivisions may participate if their governing body elects to participate.

The System is administered by a 13 member board of Trustees on which the state does not represent a voting majority. The Board is fiduciarily responsible for the trust fund's assets and directs the investment of the pension assets, reviews actuarial assumptions and valuations from which the employer contribution rates are certified by the board, and generally supervises the operations of the System.

The System is deemed to be fiscally dependent on the state because the employee member contribution rates are set through state statute, and the state has budget approval authority over the administrative costs of the System.

This component unit is presented in the fiduciary funds, along with other fiduciary funds of the state, and they have been omitted from the state's government-wide financial statements.

Related Organizations:

The state is responsible for appointing voting members to the governing boards of the following legally separate organizations, but the state's financial accountability for these organizations does not extend beyond making the appointments. Therefore, the financial data of these entities are excluded from the state's financial statements.

Those organizations are:

- Maine - New Hampshire Interstate Bridge Authority
- New Hampshire Health and Education Facilities Authority
- New Hampshire Housing Finance Authority
- New Hampshire Municipal Bond Bank

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**Government-Wide Financial Statements**

The Statement of Net Assets and Statement of Activities report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Primary government activities are distinguished between governmental and business-type activities. Governmental activities are normally supported through taxes and intergovernmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenue rather than program revenue. Certain indirect costs are included in program expenses reported for individual functions.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Beginning July 1, 2001, the activities of the special fund were combined with the general fund.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**Measurement Focus and Basis of Accounting**

The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the state generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences and claims and judgments are recorded only when payment is due.

Proprietary Fund, Fiduciary Funds and Similar Component Units, and Component Unit financial statements are reported using the economic resources measurement focus and the accrual

basis of accounting, similar to the government-wide statements described above.

In reporting proprietary activities, including component units, the state only applies applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, for its business-type activities and enterprise funds, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Financial Statement Presentation

A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

The state reports the following major governmental funds:

General Fund: The General Fund is the state's primary operating fund and accounts for all financial transactions not accounted for in any other fund.

Highway Fund: The Highway Fund is used to account for the revenues and expenditures used in the construction and maintenance of the state's public highways and the supervision of traffic thereon.

Education Fund: In fiscal year 2000, the Education Trust Fund was created in accordance with Chapter 17:41, Laws of 1999. The fund is non-lapsing and is used to distribute adequate education grants to school districts.

The state reports the following major proprietary funds:

The *Liquor Commission* accounts for the operations of state-owned liquor stores and the sales of all beer and liquor sold in the state.

The *Sweepstake Commission* accounts for the operations of the state's lottery games.

The *Turnpike System* accounts for the revenues and expenditures used in the construction, maintenance and operations of transportation toll facilities.

The *New Hampshire Unemployment Trust Fund* receives contributions from employers and provides benefits to eligible unemployed workers.

Additionally, the state reports the following fund types:

Governmental Fund Types

Capital Projects Fund - used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.

Permanent Funds - report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the state or its citizenry.

Fiduciary Fund Types

Pension (and Other Employee Benefits) Trust Fund - report resources that are required to be held in trust for the members and beneficiaries of the state's defined contribution plan, and post employment benefit plan. The New Hampshire Retirement System is a component unit of the State.

Investment Trust Fund - accounts for the transactions, assets, liabilities and fund equity of the external investment pool.

Private Purpose Trust Funds - report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

Agency Funds - report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

Reporting Periods

The accompanying financial statements of the state are presented as of June 30, 2003, and for the year then ended, except for the following entities: The Community Development Finance Authority (December 31, 2002).

D. CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the state.

E. INVESTMENTS

Investments are reported at fair value except for investments of the investment trust fund, which are reported at net amortized cost because it qualifies as a 2a7-like pool.

F. RECEIVABLES

Receivables in the government-wide financial statements represent amounts due to the state at June 30, recorded as revenue, which will be collected sometime in the future and consist primarily of accrued taxes and federal grants receivable. In the governmental fund financial statements, taxes receivable are primarily taxpayer-assessed revenues representing amounts owed by the taxpayers, which are received by the state within 60 days after year-end, except for federal grants, which reimburse the state for expenditures incurred pursuant to federally funded programs. Tax revenues are susceptible to accrual in accordance with measurable and available criteria under the modified accrual basis of accounting.

G. INVENTORIES

Inventories for materials and supplies are determined by physical count. The Sweepstakes game tickets are stated at the lower of cost (first-in, first-out method) or market. All other inventories in the governmental and proprietary funds are stated at average cost.

Governmental fund inventories are recorded under the purchase method. Reported inventory balances in the governmental funds are offset by a fund balance reserve that indicates they do not constitute "available expendable resources".

H. RESTRICTED ASSETS

The proceeds of Turnpike System revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets.

I. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Equipment is capitalized when the cost of individual items exceed \$10,000, and all other capital assets are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the primary government and the component units are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Buildings	40 years
Building improvements	20 years
Infrastructure	50 years
Computer software	5 years

J. DEFERRED REVENUE

In the government-wide financial statements and the proprietary fund financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as an offset to long-term loans receivable and federal funds received in advance of eligible expenditures.

K. COMPENSATED ABSENCES

All full-time state employees in classified service earn annual and sick leave. At the end of each fiscal year, additional leave (bonus days) may be awarded based on the amount of sick leave taken during the year. Accrued compensatory time, earned for overtime worked, must be taken within one year.

The state’s compensated absences liability represents the total liability for the cumulative balance of employees’ annual, bonus, compensatory, and sick leave based on years of service rendered along with the state’s share of social security and retirement contributions. The current portion of the leave liability is calculated based on the characteristics of the type of leave and on a LIFO (last in first out) basis, which assumes employees use their most recent earned leave first. The accrued liability for annual leave does not exceed the maximum cumulative balance allowed which ranges from 32 to 50 days based on years of service. The accrual for sick leave is made to the extent it’s probable that the benefits will result in termination payments rather than be taken as absences due to illness. The liability for compensated absences is recorded

in the government-wide and proprietary fund financial statements.

In the governmental fund financial statements, liabilities for compensated absences are accrued when they are “due and payable” and recorded in the fund only for employee resignations and retirements that occur before year-end and were paid out after year-end.

L. ENCUMBRANCES

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. Un-liquidated encumbrances are reported in the Reserved for Encumbrances account as a component of fund equity for the governmental fund types.

M. FUND BALANCES

Fund balances for all governmental funds are either reserved or unreserved. Reserved fund balances reflect either 1) assets, which, by their nature, are not available for appropriations (Reserve for Inventories); 2) funds legally segregated for a specific future use (Reserve for Encumbrances); 3) segregated by legal restrictions (Reserve for Permanent Funds). Certain reserve accounts are further described below:

Reserved for Unexpended Appropriations: This account represents amounts of unexpended appropriations legally carried forward and available for encumbrances and expenditures in the succeeding year.

Reserved for Revenue Stabilization: RSA 9:13-e established the Revenue Stabilization account for the purpose of deficit reduction. As amended by Chapter 158:41, Laws of 2001, at the close of each fiscal biennium, any General Fund undesignated fund balance, remaining after Education Trust Fund transfer, is distributed to the Revenue Stabilization account. The maximum balance that may accumulate in the account is limited to 10% of the General Fund unrestricted revenue. The account may not be used for any other purpose without specific approval by two-thirds of each house of the Legislature and the Governor.

In the event of a General Fund undesignated fund balance deficit at the close of a fiscal biennium, a transfer from the Reserved for Revenue Stabilization account may be made only if the General Fund’s unrestricted revenues are less than budgeted. The amount of the transfer is limited to the smaller of the General Fund undesignated fund balance deficit or the unrestricted revenue shortfall. Further, Chapter 319:33, Laws of 2003 authorized a transfer from this account to the General Fund in the event of a General Fund deficit at the close of fiscal year 2003. At June 30, 2003, \$37.9 million was transferred to the General Fund to eliminate the deficit which reduced the balance in the Revenue Stabilization Account to \$17.3 million.

Reserved for Health Care Fund: RSA 167:70 established the Health Care Fund for the purpose of providing financial resources for future changes in the state’s health care system in order to increase access to quality health care for the citizens of New Hampshire. In 1994, a portion of net Medicaid enhancement revenues, received as a result of an amendment to the state’s Medicaid plan relative to the New Hampshire Hospital disproportionate share revenues, was set aside to establish the initial fund balance. The maximum balance that may accumulate in the Health Care Fund is \$100 million. At

the end of any fiscal biennium, all principal assets in the fund in excess of \$100 million will be transferred to the Reserved for Revenue Stabilization account.

Since the establishment of this reserve account, the fund has been used to fund Department of Health and Human Services projects and also used to offset specific revenue shortfalls with transfers to the General Fund. Ch 319:145 Laws of 2003, repealed the Health Care Fund and the balance in the fund of \$33.9 million was transferred to the General Fund at June 30, 2003.

N. CAPITAL OUTLAYS

Capital outlays represent equipment purchases for all funds. In addition to equipment purchases, the Highway Fund's capital outlays represent expenditures for the 10-year state capital highway construction program.

O. BOND DISCOUNTS, PREMIUMS AND ISSUANCE COSTS

In the government-wide and proprietary fund financial statements, bond discounts/premiums and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums, and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

P. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. general government, education, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted". General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by state law or by outside restriction (e.g. federal grants), available only for specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the state's policy to use restricted resources first.

In the governmental fund financial statements, expenditures are reported by character: "Current", "Debt Service" or "Capital Outlay." Current expenditures are subclassified by function and are for items such as salaries, grants, supplies and services. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for real property or infrastructure (e.g. highways).

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. administration and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

Other Financing Sources (Uses) – these additions to and reductions from governmental resources in fund financial statements normally result from transfers from/to other funds and include financing provided by bond proceeds. Legally required transfers are reported when incurred as "Operating Transfers In" by the receiving fund and as "Operating Transfers Out" by the disbursing fund.

Reimbursements - Various departments charge fees on a user basis for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance and telecommunications. These transactions, when material, have been eliminated in the government-wide and governmental fund financial statements.

Q. INTERFUND ACTIVITY AND BALANCES

Interfund Activity – As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities (e.g. transfers of profits from the Liquor Commission to General Fund and the Sweepstakes Commission to the Education Fund) and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources.

Interfund Balances – Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

R. CAPITAL PROJECTS

The state records the resources obtained and used for the acquisition, construction, or improvement of certain capital facilities in the Highway Fund and the Capital Projects Fund. Encumbrances are recorded when contracts are executed. Expenditures are recorded when incurred and encumbrances are liquidated at that time.

Resources obtained to finance capital projects include federal grants and general obligation bonds. General obligation bonds are recorded as liabilities and as other financing sources in the funds that receive the proceeds.

S. BUDGET CONTROL AND REPORTING

The Statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor, propose or the Legislature adopt a budget that does not resort to borrowing. Part II is

a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary funds, with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparisons statement. Fiduciary funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. During the 2003 Legislative session, an additional \$3.0 million of General funds was appropriated to supplement the budget for the payment of Health and Human Services programs. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the departmental level.

Both, the Executive, and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of the Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances are brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

Budget to Actual Comparisons and additional budgetary information are included as Required Supplementary Information.

T. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

PRIMARY GOVERNMENT

The state pools cash and investments except for separate cash and investment accounts maintained in accordance with legal restrictions. Each fund's equity share of the total pooled cash and investments and restricted assets is included on the combined balance sheet under the captions "Cash and Cash Equivalents" and "Investments".

Deposits: The following statutory requirements and Treasury Department policies have been adopted to minimize risk associated with deposits.

RSA 6:7 establishes the policy the state Treasurer must adhere to when depositing public monies. The statute restricts deposits to national banks, trust companies, and savings banks within the United States that have a branch in the state of New Hampshire. In addition, all depositories used by the state must be approved at least annually by the Governor and Executive Council.

RSA Chapter 6-B:2 requires the state Treasurer to submit quarterly financial reports to the Governor and Executive Council, the Commissioner of Administrative Services, and the Legislative Fiscal Committee.

The Treasury Department examines the financial condition of its depositories quarterly. The state Treasurer is not required to collateralize bank deposits. Nevertheless, during fiscal year 2003, the Treasury Department collateralized deposits at one of its major depositories.

Investments: The following statutory requirements and Treasury Department policies have been adopted to ensure reasonable rates of return on investments while minimizing risk factors.

RSA Chapter 6:8 sets the policies the state Treasurer must adhere to when investing state funds. Subject to Governor and Council approval, the Treasurer must invest in certain types of investments. Those investments include obligations of the United States government or local governments within New Hampshire, savings accounts and legal investments for savings banks and trust companies, participation units in the public deposit investment pool, and certificates of deposit of state or federally chartered banks within New Hampshire or national banks in Massachusetts.

The financial condition of each bank in which or through which investments are made is evaluated by the Treasury Department on a quarterly basis. Banks through which repurchase agreements are written maintain their collateral in an investment book entry account with the Federal Reserve. That collateral is not separate from the banks' assets. However, securities used for collateral are segregated from the banks' investment accounts and are kept free of liens, charges, or claims of third parties. The state Treasurer is prohibited by statute from entering into reverse repurchase agreements.

Some United States Government Obligations are classified as cash and cash equivalents on the balance sheet because their original maturities are less than three months. For purposes of the notes to the financial statements, United States Government Obligations are categorized as investments in accordance with GAAP.

New Hampshire Public Deposit Investment Pool (NHPDIP):

The NHPDIP has been established, in accordance with RSA 383:22-24, for the purpose of investing funds of the state of New Hampshire, funds under the custody of all governmental units, pooled risk management programs established pursuant to RSA 5-B, agencies, authorities, commissions, boards, political subdivisions, and all other public units within, or instrumentalities of the state of New Hampshire. In accordance with GAAP, the external portion of the NHPDIP is reported as an investment trust fund in the Fiduciary Funds using the economic resources measurement focus and accrual basis of accounting. The internal portion of the pool is reported in the general fund. NHPDIP financial statements can be obtained by contacting NHPDIP at 497 Belknap Mountain Rd, Gilford NH 03249.

The balances of the state's deposit accounts at June 30, 2003, listed by custody risk category, are shown in the following schedule. The total bank balance represents the total amounts on deposit as reported by the banks. The carrying amount represents the balances on the state's records. The principal difference in demand deposits is outstanding checks which have not cleared the bank as of June 30, 2003 (expressed in thousands):

Description:	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Pooled Deposits:					
Demand Deposits (Interest Bearing).....	\$ 834	\$ 407	\$ 45,121	\$ 46,362	\$ (7,659)
Money Market Accounts.....	200		74,930	75,130	75,130
Savings Accounts.....	230		2,873	3,103	2,753
Certificates of Deposit.....	68		13,688	13,756	13,756
Sub Total.....	\$ 1,332	\$ 407	\$ 136,612	\$ 138,351	\$ 83,980
Restricted Deposits:					
Demand Deposits.....			22,798	22,798	22,798
Money Market Accounts.....					
Certificates of Deposit.....			9,000	9,000	9,000
Sub Total.....			31,798	31,798	31,798
Total Deposits.....	\$ 1,332	\$ 407	\$ 168,410	\$ 170,149	\$ 115,778

Category 1 Fully insured or collateralized with securities held by the state or its agent in the state's name.
Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.
Category 3 Uncollateralized.

In accordance with GAAP, investments are classified as to custody risk by the three categories described below (expressed in thousands):

Description:	Categories			Fair Value
	1	2	3	
Pooled Investments:				
Commerical Paper.....			\$ 31,132	\$ 31,132
Stocks and Bonds.....			82,403	82,403
Repurchase Agreements.....			210,969	210,969
United States Government Obligations.....			104,297	104,297
Sub Total.....			\$ 428,801	\$ 428,801
Restricted Investments:				
Commercial Paper.....			2,838	2,838
Repurchase Agreements.....			19,230	19,230
United States Government Obligations.....	22,810		7,294	30,104
Sub Total.....	\$ 22,810		\$ 29,362	\$ 52,172
Uncategorized:				
United States Government Obligations:				
(Funds on deposit in the Federal Unemployment Trust Fund)...				258,744
Open-ended Mutual Funds.....				395,339
Bond Anticipation Notes.....				654,083
Sub total.....				\$ 1,135,056
Total Investments.....				

Category 1 Insured or registered in the State's name, or securities held by the state or its agent in the state's name.
Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.
Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the state's name.

Reconciliation Between Financial Statements and Footnote						
		Unrestricted		Restricted		Total
		Cash and Cash Equivalents	Investments	Cash and Cash Equivalents	Investments	
Per Statement of Net Assets	Primary Government	\$ 554,516	\$ 18,293	\$ 13,185	\$ 55,244	\$ 641,238
Per Statement of Fiduciary Net Assets	Private Purpose	6,490	5,039			11,529
	Investment Trust		322,158			322,158
	Agency Funds	9,774	273,859			283,633
Total per Financial Statements		\$ 570,780	\$ 619,349	\$ 13,185	\$ 55,244	\$ 1,258,558
Per Footnote						
				Cash On Hand	\$	7,724
				Carrying Amount of Deposits		115,778
				Investments at Fair Value		812,898
				Investments at Amortized Cost		322,158
				Total Per Footnote	\$	1,258,558

MAJOR COMPONENT UNIT (University System of New Hampshire)**Levels of Risk of Cash and Cash Equivalents (expressed in thousands):**

	Categories			Total Bank	Carrying Amount
	1	2	3		
Deposits:					
Cash & Repurchase Agreements.....			\$ 66,503	\$ 66,503	\$ 66,503
Money Market Fund.....			851	851	851
Commercial Paper.....			32,917	32,917	32,917
Total Deposits.....			\$ 100,271	\$ 100,271	\$ 100,271

Category 1

Fully insured or collateralized with securities held by the state or its agent in the state's name.

Category 2

Collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.

Category 3

Uncollateralized.

Level of Risk for Investments (Expressed in Thousands):

	Categories			Fair Value
	1	2	3	
Investments:				
Stocks and Bonds.....	\$ 36,673		\$ 32,288	\$ 68,961
Subtotal.....	36,673		32,288	68,961
Uncategorized:				
Money Market Funds.....				38,593
Mutual Funds.....				91,054
Equities.....				7,798
U.S. Government Obligations.....				
Investments Held by Others.....				17,163
Subtotal.....				154,608
Total Investments.....	\$ 36,673		\$ 32,288	\$ 223,569

Category 1

Insured or registered in the state's name, or securities held by the state or its agent in the state's name.

Category 2

Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.

Category 3

Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the state's name.

3. RECEIVABLES

The following is a breakdown of receivables at June 30, 2003 (expressed in thousands):

	Governmental	Business-Type	Total	Major Component Unit
Short Term Receivables				
Taxes:				
Meals and Rooms.....	\$ 18,476		\$ 18,476	
Business Taxes.....	115,332		115,332	
Tobacco.....	5,929		5,929	
Estate and Legacy.....	10,080		10,080	
Real Estate Transfer.....	11,771		11,771	
Interest & Dividends.....	8,276		8,276	
Communications.....	6,600		6,600	
Hospital Tax.....	7,655		7,655	
Utility Property Tax.....	9,500		9,500	
Gasoline Road Toll.....	10,924		10,924	
Beer.....		\$ 1,167	1,167	
Subtotal.....	204,543	1,167	205,710	
Other Receivables:				
Turnpike System.....		1,062	1,062	
Liquor Commission.....		2,937	2,937	
Sweepstakes Commission.....		3,347	3,347	
Unemployment Trust Fund.....		15,795	15,795	
Board and Care.....	904		904	
Federal Grants.....	146,825		146,825	\$ 18,454
Flexible Grants.....	25,000		25,000	
Local Grants.....	24,680		24,680	
Miscellaneous.....	54,364		54,364	9,755
Short Term Portion Of State Revolving Loan Fund	18,552		18,552	
Short Term Portion Of Note Receivable.....				2,644
Subtotal.....	270,325	23,141	293,466	30,853
Total Current Receivables (Gross).....	474,868	24,308	499,176	30,853
Long Term Receivables				
State Revolving Loan Fund.....	189,898		189,898	
Loan/Note Receivable.....				20,390
Miscellaneous.....				2,089
Total Long Term Receivables (Gross).....	189,898		189,898	22,479
Allowance for Doubtful Accounts				
Total Receivables (Net).....	\$ 625,499	\$ 19,326	\$ 644,825	\$ 49,995

State Revolving Loan Fund:

Primary Government: As of June 30, 2003, total water pollution control loans outstanding amounted to \$208.5 million were recorded in the state's general fund. This amount was offset by a corresponding amount of deferred revenue. The state Water Pollution Control Revolving Loan Fund ("State Revolving Fund"), established by RSA 486:14, provides loans and other assistance to local communities for financing waste water treatment facilities. The State Revolving Fund was authorized through the Federal Clean Water Act of 1988 and was initially funded through a federal capitalization grant program to states which requires state matching funds equal to 20% of the capitalization grant funding. Principal and interest payments on the loans will occur over a period not to exceed 20 years and will be credited directly to the State Revolving Fund, enabling the fund balance to be available in perpetuity.

Major Component Unit: The component unit balance is University System of New Hampshire Perkins Loans and other college and university loans of \$49.9 million.

Deferred Revenue:

Primary Government: Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2003, the various components of deferred revenue (\$390.3 million) reported in the governmental funds were as follows:

	Unavailable	Unearned
Taxes & Fees receivable.....	\$ 99,614	989
Loans receivable.....	254,599	2,609
Federal/Local receivables.....	1,215	\$ 6,591
Receipts in advance of eligibility requirements.....		24,683
Total.....	\$ 355,428	\$ 34,872

4. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2003, was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land & Land Improvements.....	\$ 375,245	\$ 26,072	\$ (115,869)	\$ 285,448
Construction in Progress.....	195,839	43,061	(58,093)	180,807
Work in Progress Computer Software.....		1,641		1,641
Total Capital Assets not being depreciated.....	571,084	70,774	(173,962)	467,896
Other Capital Assets:				
Equipment & Computer Software.....	120,608	22,951	(8,941)	134,618
Buildings & Building Improvements.....	464,958	19,750	(468)	484,240
Land Improvements.....	90,174	4,496	(171)	94,499
Infrastructure.....	2,464,137	56,640	(17,210)	2,503,567
Total Other Assets	3,139,877	103,837	(26,790)	3,216,924
Less accumulated depreciation for:				
Equipment & Computer Software.....	(86,235)	(19,868)	7,787	(98,316)
Buildings & Building Improvements.....	(209,285)	(17,103)	431	(225,957)
Land Improvements.....	(66,819)	(5,062)	171	(71,710)
Infrastructure.....	(1,474,410)	(35,678)	311	(1,509,777)
Total Accumulated Depreciation.....	(1,836,749)	(77,711)	8,700	(1,905,760)
Other Capital Assets, Net.....	1,303,128	26,126	(18,090)	1,311,164
Governmental Activities Capital Assets, Net.....	\$ 1,874,212	\$ 96,900	\$ (192,052)	\$ 1,779,060
Business-Type Activities:				
Turnpike:				
Capital Assets not being depreciated:				
Land & Land Improvements.....	\$ 89,957	\$ 3,398	\$ (3)	\$ 93,352
Construction in Progress.....	67,369	9,372	(32,146)	44,595
Capital Assets not being depreciated	157,326	12,770	(32,149)	137,947
Other Capital Assets:				
Equipment.....	14,807	586	(185)	15,208
Buildings & Building Improvements.....	4,206	580		4,786
Infrastructure.....	478,079	32,009		510,088
Total Capital Assets	654,418	45,945	(32,334)	668,029
Less accumulated depreciation for:				
Equipment.....	(13,108)	(790)	183	(13,715)
Buildings & Building Improvements.....	(2,381)	(73)		(2,454)
Infrastructure.....	(136,468)	(10,198)		(146,666)
Total Accumulated Depreciation.....	(151,957)	(11,061)	183	(162,835)
Turnpike Capital Assets, Net.....	\$ 502,461	\$ 34,884	\$ (32,151)	\$ 505,194
Liquor:				
Capital Assets not being depreciated:				
Land & Land Improvements.....	\$ 2,055			\$ 2,055
Other Capital Assets:				
Equipment.....	8,862	\$ 347	\$ (168)	9,041
Buildings & Building Improvements.....	17,180	522	(90)	17,612
Land Improvements.....	682	194		876
Total Capital Assets	28,779	1,063	(258)	29,584
Less accumulated depreciation for:				
Equipment.....	(5,607)	(1,019)	141	(6,485)
Buildings & Building Improvements.....	(7,102)	(583)	90	(7,595)
Land Improvements.....	(595)	(17)		(612)
Total Accumulated Depreciation.....	(13,304)	(1,619)	231	(14,692)
Liquor Capital Assets, Net.....	\$ 15,475	\$ (556)	\$ (27)	\$ 14,892
Sweepstakes Commission:				
Equipment.....	\$ 520			\$ 520
Less accumulated depreciation for equipment.....	(244)	(87)		(331)
Sweepstakes Capital Assets, Net.....	\$ 276	\$ (87)	\$ -	\$ 189

Current period depreciation expense was charged to functions of the primary government as follows (expressed in thousands):

Governmental Activities:	
General Government	\$ 3,194
Administration of Justice and Public Protection	10,584
Resource Protection and Development	8,219
Transportation	42,338
Health and Social Services	10,245
Education	3,132
Total Governmental Activities Depreciation Expense	<u>\$ 77,711</u>

In prior years the state's policy was to transfer municipal related project costs to the municipalities upon project completion. During fiscal 2003 the state changed its policy for municipally owned projects and will now transfer all related project costs to the municipality when incurred, as for the majority of these projects, title and maintenance responsibility resides with the municipality. The total amount transferred to municipalities for FY 2003 was \$64.0 million. This amount is recorded as a Loss On Transfers of Assets to Municipalities on the Statement of Activities.

In accordance with GAAP, interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. In fiscal year 2003, net interest cost capitalized in the Turnpike System Enterprise Fund amounted to \$1.8 million (\$2.3 million interest expense offset by \$0.5 million interest income).

The state possesses certain capital assets that have not been capitalized and depreciated, these assets include works of art and historical treasures such as statues, monuments, paintings and miscellaneous capitol-related artifacts and furnishings. These collections meet all of the following criteria.

- A. Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- B. Protected, kept unencumbered, cared for, and preserved.
- C. Subject to an organizational policy that required the proceeds from the sales of collection items to be used to acquire other items for the collection.

Major Component Unit: The following is a rollforward of Capital Assets for the University of New Hampshire, (Expressed in Thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements.....	\$ 9,864			\$ 9,864
Building and Building Improvements.....	594,610	\$ 82,546		677,156
Equipment.....	106,920	10,002	\$ (2,545)	114,377
Construction in Progress.....	78,018	4,072	(3,826)	78,264
Subtotal.....	\$ 789,412	\$ 96,620	\$ (6,371)	\$ 879,661
Less: Accumulated Depreciation.....	(350,292)	(28,160)	2,367	(376,085)
Total.....	\$ 439,120	\$ 68,460	\$ (4,004)	\$ 503,576

5. LONG TERM-DEBT

PRIMARY GOVERNMENT

Bonds Authorized and Unissued: Bonds authorized and unissued amounted to \$279.0 million at June 30, 2003. The proceeds of the bonds will be applied to the following funds when issued (expressed in thousands):

Capital Projects Fund	\$ 143,328
Turnpike System	135,650
Total	\$ 278,978

Turnpike System: The Legislature has established a 10-year highway construction and reconstruction plan for the Turnpike System to be funded from Turnpike revenues. This legislation also authorized the Governor and Executive Council to issue up to \$586 million of revenue bonds to support this project. The state has issued \$395 million of revenue bonds for this project.

Advance Refunding: The following is a summary of general obligation bonds and revenue bonds defeased by the primary government. The proceeds from each advance refunding issue were placed in an irrevocable trust to provide for all future debt service payments on the old bonds.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements (expressed in thousands):

Date of Advance Refunding	Amount Outstanding at June 30, 2003
Governmental Fund Types (General Obligation Bonds):	
December 1, 1998.....	\$ 14,400
December 19, 1996.....	48,845
August 1, 2002.....	21,310
April 17, 2003.....	48,140
Subtotal.....	132,695
Turnpike System (Revenue Bonds):	
January 20, 1994.....	27,000
Total	\$ 159,695

Changes in Long-Term Liabilities: On August 1, 2002, the state issued \$59.5 million of general obligation bonds. Of this amount \$10.0 million were capital improvement bonds and \$49.5 million were refunding bonds. The interest rates on these serial bonds range from 3.0% to 5.0%. The refunding bonds were used to refund \$49.0 million of general obligation bonds. The proceeds of the refunding were used to purchase U.S. Government Securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. The advance refunding will result in a cash savings of \$3.3 million over the next twenty years and a long-term economic gain of \$3.0 million.

On January 31, 2003, the state issued \$46.8 million of general obligation refunding bonds. The interest rates on these serial bonds range from 4.0% to 5.0%. The refunding bonds were used to refund \$48.1 million of general obligation bonds. The proceeds of the refunding were used to purchase U.S. Government Securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. The advance refunding will result in a cash savings of \$2.8 million over the next eight years and a long-term economic gain of \$2.7 million.

The following is a summary of the changes in the long-term liabilities for bonds, compensated absences, and uninsured claims as reported by the primary government during the fiscal year (expressed in thousands):

Governmental Activities	Beginning Balance	Accretion	Increases	Decreases	Ending Balance	Current	Long-Term
General Obligation Bonds Payable..	\$ 660,204	\$ 8,782	\$ 102,839	\$ 160,747	\$ 611,078	\$ 67,538	\$ 543,540
Bond Anticipation Notes.....			50,000		50,000	50,000	
Revenue Anticipation Notes.....			75,000	75,000			
Compensated Absences.....	59,653		44,518	43,024	61,147	17,338	43,809
Uninsured Claims.....	22,583		10,961	5,917	27,627	1,097	26,530
Capital Lease.....	7,981		1,159	978	8,162		8,162
Legal Contingency.....	5,000			5,000			
Total Governmental.....	\$ 755,421	\$ 8,782	\$ 284,477	\$ 290,666	\$ 758,014	\$ 135,973	\$ 622,041
Business-Type Activities							
Turnpike System							
General Obligation Bonds.....	\$ 22,185		5,109	\$ 8,911	\$ 18,383	\$ 3,975	\$ 14,408
Revenue Bonds.....	321,161			7,517	313,644	8,110	305,534
Compensated Absences.....	2,999		1,069	1,203	2,865	260	2,605
Total.....	\$ 346,345		\$ 6,178	\$ 17,631	\$ 334,892	\$ 12,345	\$ 322,547
Liquor Commission							
Capital Lease.....	\$ 1,583			\$ 256	\$ 1,327		\$ 1,327
Compensated Absences.....	2,190		\$ 2,657	1,655	3,192	\$ 522	2,670
Total.....	\$ 3,773		\$ 2,657	\$ 1,911	\$ 4,519	\$ 522	\$ 3,997
Sweepstakes Commission							
Compensated Absences.....	\$ 381		\$ 332	\$ 275	\$ 438	\$ 109	\$ 329
Total.....	\$ 381		\$ 332	\$ 275	\$ 438	\$ 109	\$ 329
Total Business-Type.....	\$ 350,499		\$ 9,167	\$ 19,817	\$ 339,849	\$ 12,976	\$ 326,873

Bond Anticipation Notes- The state issues bond anticipation notes in advance of issuing general obligation bonds. The proceeds are deposited into the capital fund to fund various capital outlay projects. At June 30, 2003, the state had \$50 million of notes outstanding. In addition the state issued \$75 million of revenue anticipation notes which were repaid during the year.

Legal Contingency- As explained further in Footnote 14, in the case *Smith, et al. v. Department of Revenue*, the state has revised its estimates and has recognized a liability in the General Fund in the amount of \$3 million. Since it is expected that this claim will be paid in February 2004, this amount has been reclassified from a long-term liability to a current liability.

Capital Appreciation Bonds: Six of the state's general obligation capital improvement bonds issued since November 1990 represent capital appreciation bonds (College Savings Bond Program) with interest being accrued and compounded semiannually. At June 30, 2003, the cumulative interest accretion since issuance for all six capital appreciation bonds is approximately \$113.5 million. The interest is not paid until the bonds mature, at which time the expenditure will be recorded.

Debt Maturity: All bonds issued by the state, except for Turnpike revenue bonds, are general obligation bonds, which are backed by the full faith and credit of the state. Interest rates on these issues range from 3.0% to 7.2%. Debt service payments on "self-liquidating" debt are funded by reimbursements from component units for debt issued by the state on their behalf and through user fees and other revenues statutorily earmarked to fund debt service payments on specific projects. The anticipated source of repayment and annual maturities are as follows (expressed in thousands):

Payable June 30,	SOURCE OF PRINCIPAL PAYMENTS						DEBT SERVICE		
	Governmental Activities				Business-Type Activities		TOTAL ALL FUNDS		
	General Fund	Highway Fund	Self Liquidating	Total	Turnpike System		Principal	Interest	Total
					General Obligation	Revenue			
2004.....	\$ 58,639	\$ 4,258	\$ 4,641	\$ 67,538	\$ 3,975	\$ 8,110	\$ 79,623	\$ 37,311	\$ 116,934
2005.....	54,828	4,163	4,400	63,391	3,521	11,145	78,057	35,664	113,721
2006.....	52,302	4,244	4,624	61,170	3,682	10,710	75,562	32,886	108,448
2007.....	48,870	4,240	4,592	57,702	2,644	11,690	72,036	30,566	102,602
2008.....	47,585	3,907	4,525	56,017	1,509	12,035	69,561	27,686	97,247
2009-2013.....	188,102	14,486	20,163	222,751	2,682	71,895	297,328	101,467	398,795
2014-2018.....	83,110	4,995	2,634	90,739		91,905	182,644	53,516	236,160
2019-2023.....	29,241	1,968	591	31,800		60,035	91,835	19,819	111,654
2024-2028.....						33,695	33,695	5,381	39,076
2029-2033.....						7,230	7,230	343	7,573
Subtotal.....	\$ 562,677	\$ 42,261	\$ 46,170	\$ 651,108	\$ 18,013	\$ 318,450	\$ 987,571	\$ 344,639	\$ 1,332,210
Unamortized Discount / Premium	(28,097)	(4,455)	(1,895)	(34,447)	370	1,527	(32,550)		(32,550)
Unamortized Loss on Refunding	(5,583)			(5,583)		(6,333)	(11,916)		(11,916)
Total.....	\$ 528,997	\$ 37,806	\$ 44,275	\$ 611,078	\$ 18,383	\$ 313,644	\$ 943,105	\$ 344,639	\$ 1,287,744

MAJOR COMPONENT UNIT

Changes in Long-Term Liabilities: The following is a summary of the changes in the long-term liabilities as reported by the University of New Hampshire during the fiscal year (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance	Current	Long-Term
University System of NH.....	\$ 301,040	\$ 413	\$ 2,501	\$ 298,952	\$ 10,221	\$ 288,731

The University System of New Hampshire's long-term liabilities include: Revenue Bonds Payable of \$192.8 million; accrued employee benefits and compensated absences of \$67.3 million; and other liabilities of \$28.7 million.

Debt Maturity: The following is a summary of the annual principal payments and total debt service relating to the long-term debt of the University of New Hampshire (expressed in thousands):

Payable June 30,	UNIVERSITY SYSTEM OF N.H.		
	Principal	Interest	Total
2004.....	\$ 1,931	\$ 10,114	\$ 12,045
2005.....	5,485	9,986	15,471
2006.....	5,462	9,739	15,201
2007.....	5,714	9,487	15,201
2008.....	5,972	9,218	15,190
2009-2013.....	33,183	41,647	74,830
2014-2018.....	38,720	32,370	71,090
2019-2023.....	42,145	21,072	63,217
2024-2028.....	28,320	11,731	40,051
2029-2033.....	27,075	5,215	32,290
2034.....	6,270	161	6,431
Subtotal.....	200,277	160,740	361,017
Unamortized Discount....	(53)		(53)
Total.....	\$ 200,224	\$ 160,740	\$ 360,964

6. RISK MANAGEMENT AND INSURANCE

The state is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The state primarily retains the risk of loss except where the provisions of law allow for the purchase of commercial insurance or where commercial insurance has been proven beneficial for the general public. There are approximately 30 such commercial insurance programs in effect, which include fleet automobile liability, ski area liability for Cannon Mountain, and a faithful performance position schedule bond. Settled claims under these insurance programs have not exceeded commercial insurance coverage in any of the last three years. Claim liabilities not covered by commercial insurance are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. During

fiscal 2002, the state was fully insured for worker's compensation exposure of its employees with a \$10.0 million per occurrence deductible. Beginning in February 2003, the state reverted back to self-insurance for worker's compensation claims. At June 30, 2003, the amount of liabilities, related to worker's compensation claims, was approximately \$31.0 million. This liability is the state's best estimate based on available information. In the governmental funds, the total liability is approximately \$27.6 million. Of this liability, \$1.1 million has been determined to be payable with expendable available financial resources and recorded as accounts payable in the governmental funds. The remaining \$26.5 million long-term liability has been recorded in the Government-wide financial statements. The total liability recorded in the enterprise funds amounted to approximately \$3.4 million at June 30, 2003.

The following table presents the changes in worker's compensation claim liabilities (short- and long-term combined) during the fiscal years ending June 30, 2002, and June 30, 2003:

Changes in Claim Liabilities (expressed in thousands)				
Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Paid	Ending Balance
2002	\$ 17,232	\$ 14,351	\$ 6,530	\$ 25,053
2003	\$ 25,053	\$ 12,740	\$ 6,813	\$ 30,980

7. INTERFUND RECEIVABLES AND PAYABLES

Due From or To Other Funds for the primary government on the fund financial statements consist of the following as of June 30, 2003 (expressed in thousands):

RECEIVABLES	AMOUNT	PAYABLES	AMOUNT
General Fund.....	\$ 5,015	Education Fund.....	\$ 5,015
General Fund.....	2,025	Non-Major Fund: Fish & Game	2,025
Education Fund.....	569	Sweepstakes Commission.....	569
Liquor Commission.....	5,317	General Fund.....	5,317
Total.....	\$ 12,926	Total.....	\$ 12,926

The net due from or to other funds for the primary government has been reported as "internal balances" in the government-wide financial statements. The net amount of \$4.7 million (governmental payable of \$5.3 million less business-type receivable of \$.6 million) represents the "internal balances" amount on the statement of net assets. The \$5.0 million and \$2.0 million have been netted on the government-wide financial statement.

Due from Component Units: As of June 30, 2003, the cumulative balance of outstanding loans plus accrued interest to the Pease Development Authority (PDA) amounted to \$40.8 million. The balance has been offset by a corresponding amount of deferred revenue in the General Fund Financial Statements.

The state has issued general obligation bonds to finance certain capital projects for the University System of New Hampshire (University System). As of June 30, 2003, the outstanding balance of these bonds was \$5.3 million. The state is reimbursed for the debt service payments from the University System as the payments are due. This receivable is classified as "Due from Component Units" and "Deferred Revenue" in the State's General Fund Financial Statements.

8. INTERFUND TRANSFERS

Interfund transfers during the current fiscal year were as follows (expressed in thousands):

Transferred To

Transferred From	General Fund	Highway Fund	Education Fund	Non-Major Fund	Total Governmental Fund
Governmental Funds					
General Fund.....		\$ 1,000	\$ 83,420	\$ 308	\$ 84,728
Education Fund.....	\$ 21,595				21,595
Highway Fund.....	824			824	1,648
Total Governmental Funds.....	* 22,419	* 1,000	* 83,420	* 1,132	* 107,971
Proprietary - Enterprise Funds					
Liquor Commission.....	85,613				85,613
Sweepstakes Commission.....			66,569		66,569
Total Proprietary - Enterprise Funds.....	\$ 85,613		\$ 66,569		\$ 152,182

*These Amounts have been eliminated within governmental activities on the government-wide financial statements.

The following transfers represent sources of funding identified through the state's budget per Ch. 130,L'01:

- \$83.4 million appropriated from general fund to fund education, \$21.6 million returned to eliminated education fund surplus
- \$0.3 million transferred from general fund to eliminate capital fund deficit
- Transfer of Sweepstakes Commission profits of \$66.6 million to fund education
- Transfer of Liquor Commission profits of \$85.6 million to general fund for government operations

Pursuant to RSA 260:60, \$1.6 million of unrefunded gas tax was transferred on a 50/50 basis to the general and fish & game funds.

Pursuant to Ch. 187,L'03, \$1.0 million of oil discharge cleanup funds were transferred to highway fund.

9. UNDESIGNATED FUND BALANCE (DEFICIT) and CONTRACTUAL COMMITMENTS

Highway Fund: The Highway Fund unreserved, undesignated deficit was \$12.6 million as of June 30, 2003. The deficit exists primarily because certain multi-year Highway infrastructure construction projects are appropriated from current year fund balance.

Capital Projects Fund: The June 30, 2003, unreserved, undesignated deficit of the Capital Projects Fund was \$144.9 million. The Capital Projects Fund accounts for multi-year capital projects which will be primarily financed by bond proceeds. The project costs are appropriated when the project is approved. Bonds are issued as the expenditures are expected to be incurred. As of June 30, 2003, bonds authorized and unissued for the Capital Projects Fund amounted to \$143.3 million.

Contractual Commitments: The state has estimated its share of contractual obligations for construction contracts to be \$35.9 million at June 30, 2003. This represents total obligations of \$177.9 million less \$142.0 million in estimated federal aid.

10. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System (The Plan) established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time state employees, public school teachers and administrators, permanent firefighters, and police officers within the state of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. The Plan is divided into two membership groups. Group I consists of state and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of average final compensation multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with 10 or more years creditable service who are between age 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

Pursuant to RSA 100-A:50, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees of political subdivisions and teachers and Group II police officers and firefighters.

A special account has been established by RSA 100-A:16, II(h) for additional benefits. The account is credited with all of the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus 1/2 of 1 percent.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 4 Chenell Drive, Concord, NH 03301-8509 or from their web site at <http://www.state.nh.us/retirement>.

Funding Policy: The Plan is financed by contributions from the members, the state and local employers, and investment earnings. In fiscal year 2003, by statute, Group I members contributed 5.0% of gross earnings. Group II members contributed 9.3% of gross earnings. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the system's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll. The state's share represents 100% of the employer cost for all state employees, and 35% of the employer cost for teachers, firefighters, and police officers employed by political subdivisions. The state does not participate in funding the employer cost of other political subdivision employees.

The state's contributions to the plan for the years ending June 30, 2003, 2002, and 2001 were \$39.0 million, \$37.1 million, and \$33.8 million, respectively, which equals the required contributions for each year. It is anticipated that the state's contributions for the upcoming fiscal years ending June 30, 2004 and 2005 will increase substantially over the amounts contributed for the fiscal year ended June 30, 2003 due to the weak investment performance of the Plan during the past 3 years.

HEALTH CARE INSURANCE FOR RETIRED EMPLOYEES

In addition to providing pension benefits, RSA 21-I:30 specifies that the state provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the state's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the state and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2003, legislation was passed that requires state Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to

qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through an insurance company whose premiums are based on the benefits paid during the year. The state recognizes the cost of providing benefits by paying the entire annual insurance premiums with a portion of the cost offset by the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees, an additional amount offset by payments from self-funded state agencies and minor contributions made directly by certain retirees.

During the Fiscal year ended June 30, 2003, the state paid \$38.4 million of annual insurance premiums for approximately 7,692 state retirees and covered dependents receiving a periodic pension benefit. These premiums were offset by \$10.4 million received from the New Hampshire Retirement System's medical premium subsidy program and by \$8.8 million paid by self-funded state agencies. The net cost incurred by the state for health insurance premiums for retirees during fiscal year 2003 was \$19.2 million.

JUDICIAL RETIREMENT PLAN

Chapter 311 of the Laws of 2003 established a contributory defined benefit judicial retirement plan for state judges. The chapter appropriated \$42.8 million to the board of trustees of the newly established judicial retirement system, which amount is to be used for the payment of the unfunded accrued liability attributable to the judicial retirement system. The chapter further authorized the issuance of bonds by the state to fund this payment. The bonds shall have a term not later than 30 years from the date of issue. The chapter further provides that the provisions regarding appropriation for the unfunded liability and the issuance of bonds shall be implemented beginning on the later of July 1, 2004 or 180 days after the system receives a favorable determination from the Internal Revenue Service as to the tax qualified nature of the plan under the Internal Revenue Code.

COMPONENT UNITS

Eligible employees of the New Hampshire Retirement System and the Pease Development Authority participate in the PERS and additional disclosure about their participation is available in the NHRS audited financial statements. Employees of the New Hampshire Community Development Finance Authority, the Business Finance Authority, and the University System of New Hampshire are not members of the New Hampshire Retirement System, but participate in their own defined contribution plans.

11. CONTINGENT AND LIMITED LIABILITIES

PRIMARY GOVERNMENT

Contingent Liabilities: The state of New Hampshire is contingently liable, within statutory legal limits, for bonds sold by municipalities, school districts, and for first mortgages on industrial and recreational property that contain the guarantee of the state of New Hampshire. The following table shows the composition of the state's \$192 million of contingent liabilities and the statutory limits as of June 30, 2003 (expressed in thousands):

	RSA	Guarantee Limit	Remaining Capacity	June 30, 2003			June 30, 2002
				PRINCIPAL	INTEREST	TOTAL	TOTAL
Water Pollution Bonds.....	485-A:7	175,000	116,476	\$ 45,535	\$ 12,989	\$ 58,524	\$ 69,355
Business Finance Authority (BFA) - General Obligation.....	162-A:17	25,000	**	21,300	4,521	25,821	
Business Finance Authority (BFA) - Additional State Guarantee.....	162-I:9-b	50,000	**	30,839		30,839	
Business Finance Authority (BFA) - Unified Contingent Credit Limit.....	162-A:22	95,000	* 38,340	52,139	4,521	56,660	76,409
School Construction Bonds.....	195-C:2	95,000	55,852	28,259	10,889	39,148	45,597
Solid Waste Bonds.....	149-M:31	30,000	29,161	645	194	839	991
Super Fund Site Cleanup Bonds.....	33:3-f	50,000	* 50,000				
Water Resources Council Bonds.....	481:19	5,000	5,000				
Housing Finance Authority Child Care Loans.....	204-C:79	300	300				
TOTALS.....		\$ 450,300	\$ 295,129	\$ 126,578	\$ 28,593	\$ 155,171	\$ 192,352

* Plus interest

** Plus interest (guarantees under this section are also limited by RSA 162-A:22)

Limited Liabilities with the Pease Development Authority (PDA):

The state has statutory authority to guarantee bonds issued by the PDA, within certain limits, and advance money to the PDA, through both interest and non-interest bearing loans. In addition, RSA 12-G:17 authorizes the issuance of up to \$250.0 million in bonds backed solely by the credit of the PDA. The table below highlights the legal limits of state guarantees and loans relative to the PDA as of June 30, 2003 (expressed in thousands):

	(1) RSA 12-G:31	(2) RSA 12-G:34	(3) RSA 12-G:33	(4) RSA 12-G:35	Non- Statutory
Legal Limit	50,000	5,000	35,000	10,000	No Limit
Debt Guaranteed Now Assumed by State					
Business Express Airlines.....	10,000				
Amount Bonded By State and Loaned to PDA					
Operating Budget FY92 (V161).....	2,800				
Operating Budget FY93 (V161).....	3,800				
Operating Budget FY93 (V165).....	1,000				
Matching Grants Econ. Dev. (V165).....		5,000			
Lonza (Celltech).....	29,990				
Amount Advanced to PDA					
Operating Budget FY94.....					400
Operating Budget FY95.....					1,900
Operating Budget FY96.....					1,948
Operating Budget FY97.....					1,572
Remaining Capacity	2,410		35,000	10,000	N/A

(1) RSA 12-G:31 - \$50 million in bonds may be guaranteed by the state for airport projects or the state can make loans by issuing bonds.

(2) RSA 12-G:33 - \$35 million in bonds may be guaranteed by the state to develop a research district.

(3) RSA 12-G:34 - \$5 million in bonds may be issued and loaned to provide matching grants for FAA and EDA grants.

(4) RSA 12-G:35 - \$10 million in bonds may be issued and loaned to provide matching to private grants for development of research district.

PDA: The state loaned PDA the proceeds from bond issues V161 (\$6.6 million) and V165 (\$6.0 million). Currently, the state pays the debt service payments for the bond issues and when funds are available PDA will repay the state. As of June 30, 2003, no payments have been made by the PDA to the state. Total principle and interest due at maturity owed by PDA, for these two bonds, is \$22.8 million.

Semi-annually, PDA makes payments to the state for the Lonza (Celltech) loans and the state pays the debt service payments. The amount outstanding as of June 30, 2003 relative to the Lonza (Celltech) loans is \$29.5 million (representing principle \$20.8 million and interest \$8.7 million).

Of the amount advanced to PDA totaling \$5.8 million, the outstanding balance at June 30, 2003 is \$1.1 million. These advances were interest-free loans to the PDA.

Federal Grants: The state receives federal grants, which are subject to review and audit by the grantor agencies. Access to these resources is generally conditional upon compliance with terms and conditions of grant agreements and applicable regulations, including expenditure of resources for allowable purposes. Any disallowances resulting from the audit may become the liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

COMPONENT UNITS

The Community Development Finance Authority records liabilities payable from restricted assets of \$2.6 million. These liabilities relate to economic development projects for which pledges have been received by the authority. There is no guarantee that these projects will begin or be completed. In the event the project does not utilize the funding donated on its behalf, the funds are to be returned to the donor or the state at the discretion of the donor.

12. CONDENSED STATEMENTS FOR DISCRETELY PRESENTED COMPONENT UNITS

STATE OF NEW HAMPSHIRE
CONDENSED STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2003
(Expressed in Thousands)

	Major	Non-Major			Total
	University System of N.H.	Business Finance Authority	Community Development Finance Authority	Pease Development Authority	
<u>ASSETS</u>					
Current Assets.....	\$ 177,627	\$ 18,421	\$ 7,778	\$ 15,792	\$ 219,618
Capital Assets, Net.....	503,576	5,709	38	65,303	574,626
Other Non-Current Assets.....	202,874	10,080	2,253	182	215,389
Total Assets.....	884,077	34,210	10,069	81,277	1,009,633
<u>LIABILITIES</u>					
Current Liabilities.....	70,715	4,164	5,297	2,641	82,817
Long Term Debt.....	284,456	24,190	2,415	2,961	314,022
Due to Primary Government.....	5,338			40,811	46,149
Total Liabilities.....	360,509	28,354	7,712	46,413	442,988
<u>NET ASSETS</u>					
Invested in Capital Assets, Net of Related Debt.....	306,273	5,708	38	41,591	353,610
Restricted Assets.....	174,519	1,714		8,185	184,418
Unrestricted Assets (Deficit).....	42,776	(1,566)	2,319	(14,912)	28,617
Total Net Assets.....	\$ 523,568	\$ 5,856	\$ 2,357	\$ 34,864	\$ 566,645

STATE OF NEW HAMPSHIRE
CONDENSED STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Expenses	Program Revenues			Net (Expenses) Revenues	General Revenue	Extraordinary Loss	Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
		Charges for Services	Operating Grants and Contributions	Capital Grants						
Component Units:										
College & University.....	\$ 509,167	\$ 289,911	\$ 116,962	\$ 9,745	\$ (92,549)	\$ 120,361		\$ 27,812	\$ 495,756	\$ 523,568
Business Finance Authority.....	2,191	2,368			177	157	(280)	54	5,802	5,856
Community Development Finance Authority.....	1,512	912	244		(356)			(356)	2,713	2,357
Pease Development Authority.....	13,041	13,058			17	1,377		1,394	33,470	34,864
Component Unit Total.....	\$ 525,911	\$ 306,249	\$ 117,206	\$ 9,745	\$ (92,711)	\$ 121,895	\$ (280)	\$ 28,904	\$ 537,741	\$ 566,645

STATE OF NEW HAMPSHIRE
CONDENSED STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNITS
FOR FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Net Cash Provided (Used) by:				Net Increases (Decreases) in Cash and Cash Equivalents	Cash and Cash Equivalents Beginning of Year	Cash and Cash Equivalents End of Year
	Operating Activities	Noncapital Financing Activities	Capital and Related Financing Activities	Investing Activities			
Component Units:							
College & University.....	\$ (73,134)	\$ 96,710	\$ (76,107)	\$ 75,827	\$ 23,296	\$ 76,975	\$ 100,271
Business Finance Authority.....	1,318	(4,172)		5,157	2,303	11,821	14,124
Community Development Finance Authority.....	(615)	(315)	119	120	(691)	5,597	4,906
Pease Development Authority.....	3,427		(2,092)		1,335	3,958	5,293
Non-Major Component Unit Total.....	\$ (69,004)	\$ 92,223	\$ (78,080)	\$ 81,104	\$ 26,243	\$ 98,351	\$ 124,594

13. LEASE COMMITMENTS**OPERATING LEASES**

The state has lease commitments for space requirements which are accounted for as operating leases. These leases, subject to continuing appropriation, extend forward a number of years and may contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2003 for governmental activities and business-type activities were approximately \$7.7 million and \$2.5 million, respectively. The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2003 (expressed in thousands):

Payable June 30,	Governmental Activities	Business-Type Activities
2004.....	\$ 5,523	\$ 1,783
2005.....	3,219	1,618
2006.....	1,296	1,316
2007.....	451	912
2008.....	1,195	639
2009-2013.....	159	8
Total.....	\$ 11,843	\$ 6,276

CAPITAL LEASES

The state has entered into lease agreements as lessee for financing the acquisition of buildings and equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments. The future minimum lease payments and the net present value of those payments at June 30, 2003, are as follows (in thousands):

Payable June 30,	Governmental Activities	Business-Type Activities
2004.....	\$ 1,340	\$ 255
2005.....	1,222	255
2006.....	1,168	255
2007.....	1,157	255
2008.....	1,104	141
2009 - 2013.....	2,735	533
2014 - 2018.....	1,423	
2019 - 2023.....	621	
Total.....	10,770	1,694
Amount Representing Interest.....	(2,608)	(367)
Present Value of Minimum Lease Payments.....	\$ 8,162	\$ 1,327

The assets acquired through capital leases and included in capital assets at June 30, 2003 include the following (in thousands):

	Governmental Activities	Business-Type Activities
Equipment.....	\$ 3,790	\$ 504
Buildings & Building Improvements..	9,285	1,129
Total.....	13,075	1,633
Less: Accumulated Depreciation....	(7,247)	(429)
Net.....	\$ 5,828	\$ 1,204

14. LITIGATION***Claremont School District, et. al. v. Governor, et. al.***

For the last several years, the state has been involved in ongoing litigation initiated against the state by five school districts who challenged the constitutionality of the state's statutory system of financing the operation of elementary and secondary public schools primarily through local property taxes. On December 17, 1997, the New Hampshire Supreme Court ruled in favor of the Plaintiffs and found that property taxes in support of education are state taxes and that such taxes must be proportional and reasonable throughout the state, and that the current system failed to meet this standard. The Supreme Court further held that a constitutionally adequate public education is a fundamental right, and that the legislative and executive branches must develop and adopt specific criteria implementing appropriate guidelines for such an education.

During the 1998 session, the legislature passed a law defining the components of what constitutes an adequate education and further established commissions to study the costs of providing a constitutionally adequate education and special education. These commissions issued reports in December 1998. The 1998 legislative session also produced a law requiring a comprehensive study of the school facilities statewide. This study was commenced in 1999, was completed by July 1, 2000 and was reported to the legislature on September 1, 2000.

During the 1999 session, the legislature produced a law that determines the cost of an adequate education for the biennium beginning July 1, 1999, and commits to the expenditure of that amount of money. Also included in this law are two study commissions: one charged with reviewing New Hampshire's tax structure and the other with reviewing the costs of an adequate education and special education, and the delivery of an adequate education.

In August 1999, the Plaintiffs filed motions in the Supreme Court, which retains jurisdiction in this matter, challenging various aspects of the new system. In mid-October, the Supreme Court struck down the statewide property tax included in the state's funding plan. The Court held that the phase-in of the tax in so-called "donor" communities was unconstitutional. The Court held that all of the Plaintiffs' other claims were premature and dismissed them without prejudice. In November, the legislature re-enacted the statewide property tax without the phase-in.

During the 2001 legislative session, several school funding bills and some accountability bills were vigorously debated by the legislature. An accountability bill was passed by the legislature but the Governor vetoed it. A school funding bill was also passed which essentially makes the current system permanent by removing the sunset clauses on the current methodology for calculating the per pupil cost and on the Uniform Education Property Tax.

On August 2001, the Claremont Plaintiffs filed a motion in the Supreme Court challenging the adequacy of the state's compliance with the Court's prior rulings and seeking an Order requiring the legislature to enact a new school funding system by June 3, 2002. The Attorney General's Office filed an objection to the Plaintiffs' motion on October 5, 2001, and has asked the Court to close the case. On December 4, 2001 the Supreme Court issued an Order dismissing some of the Plaintiffs' claims without prejudice to be brought in the Superior Court and allowing further briefing by each side and oral argument on the issue of whether

it should invoke its continuing jurisdiction to determine if the state had defined an adequate education.

On January 7, 2002, the Supreme Court issued an Order invoking its continuing jurisdiction and requesting briefs on the issues of whether standards of accountability must be established by the state to meet its constitutional requirement of providing an adequate education and whether the existing system satisfies this obligation. On April 11, 2002, the Supreme Court issued a Decision holding that accountability is an essential component of the state's duty to provide an adequate education and finding that the existing statutory system has deficiencies that are inconsistent with the state's duty. The Court found that the state has not provided a sufficient mechanism to require that school districts actually provide an adequate education. The Court held that the state needs to do more work to fulfill its duty and to incorporate meaningful accountability in the education system. No time line was established in the Decision under which the executive and legislative branches must create standards of accountability.

Accountability, as well as education funding, was debated during the 2003 legislative session. The legislature passed two bills, House Bill 608 ("HB 608") and House Bill 139 ("139"). HB 608 uses the existing school funding system for fiscal year 2004 but increases the adequacy payment by the Consumer Price Index instead of doing the recalculation of the base cost of adequacy previously required in RSA 198:40. For fiscal year 2005, HB 608 establishes a new funding system based on each municipality's tax base in proportion to its local education costs. HB 608 provides for targeted aid and enhanced aid to municipalities that have below the state's average tax base per pupil. The amount of aid that a municipality receives is based on what each municipality's proportion is compared to the state's average tax base per pupil.

HB 139 establishes an accountability system that meets not only the Supreme Court's Decision in Claremont but also the federal requirements of No Child Left Behind. HB 139 provides performance goals that must be met in order to show adequate yearly progress and establishes a notification process to schools and communities when certain schools are not making adequate yearly progress. HB 139 also creates a corrective action process to assist schools that are not meeting adequate yearly progress goals. This corrective action process includes, as its last step, the requirement that the Department of Education develop a corrective action plan for any school district that does not develop an adequate plan for approval by the State Board of Education which will then order the school district to implement that corrective action plan.

At this time, there is no existing or threatened litigation against the state relating to the Claremont case.

Smith, et al. v. Department of Revenue Administration

A consolidated action against the New Hampshire Department of Revenue in which the taxpayers challenged the constitutionality, under both the State and Federal Constitutions, of the interest and dividends tax law in effect from 1989 through June 30, 1994 was tried in the Merrimack County Superior Court in June 2000. That trial resulted in a judgment rejecting the Plaintiffs' broad claims for in excess of \$100 million and ordered the state to provide Plaintiffs with a refund of taxes paid on interest and dividends received from out-of-state instruments *only*.

The Plaintiffs appealed the Superior Court's Order to the New Hampshire Supreme Court, claiming that a refund is due for taxes paid on interest received from a broader range of finan-

cial instruments. On November 25, 2002, the New Hampshire Supreme Court Order issued its Decision affirming the Superior Court's Order that refunds should only be made to taxpayers who paid the interest and dividends tax on out of state bank instruments. The Plaintiffs appealed this Decision to the United State Supreme Court, which was denied on May 3, 2003. Based on this Decision, the state estimates that the refunds will total approximately \$3 million. The parties are working with the Superior Court to develop a refund process with the expectation that the refunds will be issued by February 2004. The state has recorded this liability and the related expenditure on the financial statement within the General Fund.

General Electric v. Department of Revenue Administration

This is an appeal by General Electric from a decision by the Department of Revenue Administration. In this appeal, GE claims that the dividends received deduction allowed under RSA 77-A:4, IV should be invalidated because the statute discriminates against the foreign commerce in violation of the commerce clause of the United States Constitution and results in unfair taxation out of proportion to GE's activities in New Hampshire in violation of the Due Process and Commerce Clauses of the U.S. Constitution.

By way of background, in 2001, GE and the Department executed two settlement agreements substantially resolving GE's business profit tax liability for multiple tax years. The settlement agreements did not resolve the foreign dividend issue, which is the issue in this appeal, concerning tax years 1990-1999. The State has filed an Answer. Proceedings in this case essentially have been stayed with the court while the parties attempt to reach a stipulation of facts in lieu of conducting discovery. The parties have agreed to file dispositive motions with the court in lieu of trial. If the issue is resolved in GE's favor, the Department would be required to refund \$3 million to GE. The State could face other potential losses if other taxpayers challenge the statute. It is not possible to predict the outcome of this case at this time.

OTHER LITIGATION

The state, its agencies and employees are defendants in numerous other lawsuits. Although the Attorney General is unable to predict the ultimate outcome of these suits, in the opinion of the Attorney General and the Commissioner of Administrative Services, the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the state, which would materially affect its financial position, is remote. Accordingly, no provision for such ultimate liability, if any, has been made in the financial statements.

15. SUBSEQUENT EVENT

On July 10, 2003, the state issued \$94.1 million of Turnpike System Revenue Refunding Bonds. The interest rates on these serial bonds ranged from 2.0% to 5.0%.

On December 9, 2003, the state issued \$80.0 million of General Obligation Bonds. The interest rates on these serial bonds ranged from 2.0% to 5.0%.

On September 19, 2003, the Executive Council approved a contract with Cigna Health Care to administer the employer paid State's health benefits program for the period October 1, 2003 to June 30, 2005. The plan covers both active and retired state employees. Previously, the cost of health care was covered through insurance policies. The new contract for \$13.2 million, for administering this plan also includes a premium for catastrophic coverage if the claims exceed 125% of total expected claims (\$175 million) and / or if an individual's claims exceed \$0.5 million.

Required Supplementary Information Budgetary Schedules

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(expressed in thousands)

	General Fund			
	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
REVENUES				
General Property Taxes.....	\$ 450	\$ 450	\$ 395	\$ (55)
Special Taxes.....	911,734	911,734	842,224	(69,510)
Personal Taxes.....	60,402	60,468	67,052	6,584
Business License Taxes.....	19,739	19,739	17,551	(2,188)
Non-Business License Taxes.....	68,461	68,483	85,839	17,356
Fees.....	134,974	137,714	96,315	(41,399)
Fines, Penalties and Interest.....	26,492	25,940	21,729	(4,211)
Grants from Federal Government.....	1,133,418	1,315,249	959,541	(355,708)
Grants from Private and Local Sources.....	198,817	213,452	97,057	(116,395)
Rents and Leases.....	6,502	6,584	6,198	(386)
Interest Premiums and Discounts.....	7,527	7,555	9,988	2,433
Sale of Commodities.....	5,057	5,618	11,189	5,571
Sale of Services.....	76,951	83,092	90,494	7,402
Assessments.....	26,638	27,729	21,179	(6,550)
Grants from Other Agencies.....	95,552	104,381	92,267	(12,114)
Miscellaneous.....	22,582	30,528	96,791	66,263
Total Revenues.....	2,795,296	3,018,716	2,515,809	(502,907)
EXPENDITURES				
General Government.....	253,589	267,787	244,628	23,159
Justice and Public Protection.....	340,180	371,683	312,344	59,339
Resource Protection and Development.....	223,264	233,703	153,016	80,687
Transportation.....	13,062	25,694	17,603	8,091
Health and Social Services.....	1,624,187	1,700,652	1,479,926	220,726
Education.....	464,184	465,775	365,939	99,836
Debt Service.....	84,623	84,623	82,448	2,175
Capital Outlays.....	48,487	48,488	34,610	13,878
Total Expenditures	3,051,576	3,198,405	2,690,514	507,891
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(256,280)	(179,689)	(174,705)	4,984
OTHER FINANCING SOURCES (USES)				
Transfers In.....	87,988	87,988	87,988	
Transfers Out		(84,728)	(84,728)	
G.O. Bond Issuance and Premiums.....			97,830	97,830
Payment to Refunding Bonds Escrow Agent.....			(97,830)	(97,830)
Miscellaneous.....		(143)	(143)	
Total Other Financing Sources (Uses).....	87,988	3,117	3,117	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(168,292)	(176,572)	(171,588)	4,984
Fund Balance - July 1.....	288,982	288,982	288,982	
Fund Balance - June 30.....	\$ 120,690	\$ 112,410	\$ 117,394	\$ 4,984

The Notes to Required Supplementary Information are an integral part of this schedule.

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
HIGHWAY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(expressed in thousands)

	Highway Fund			
	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
REVENUES				
Business License Taxes.....	\$ 149,144	\$ 149,144	\$ 145,378	\$ (3,766)
Non-Business License Taxes.....	70,111	70,111	69,607	(504)
Fees.....	16,613	16,613	18,104	1,491
Fines, Penalties and Interest.....	469	469	793	324
Grants from Federal Government.....	280,239	280,239	50,537	(229,702)
Grants from Private and Local Sources.....	8,353	6,153	9,813	3,660
Rents and Leases.....				
Interest Premiums and Discounts.....	5,200	5,200	1,180	(4,020)
Sale of Commodities.....	163	163	200	37
Sale of Services.....	32,386	32,461	19,891	(12,570)
Assessments.....	325	325		(325)
Grants from Other Agencies.....	948	958	772	(186)
Miscellaneous.....	230	230	1,149	919
Total Revenues.....	564,181	562,066	317,424	(244,642)
EXPENDITURES				
Justice and Public Protection.....	2,207	3,167	3,167	
Transportation.....	434,934	403,209	248,466	154,743
Debt Service.....	6,618	6,618	6,823	(205)
Capital Outlays.....	302,985	302,984	151,014	151,970
Total Expenditures	746,744	715,978	409,470	306,508
Excess (Deficiency) of Revenues	(182,563)	(153,912)	(92,046)	61,866
Over (Under) Expenditures.....				
OTHER FINANCING SOURCES (USES)				
Transfers In.....		1,000	1,000	
Transfers Out		(1,647)	(1,647)	
Miscellaneous.....		(1,214)	(1,214)	
Total Other Financing Sources (Uses).....		(1,861)	(1,861)	
Excess (Deficiency) of Revenues				
and Other Sources Over (Under)				
Expenditures and Other Uses.....	(182,563)	(155,773)	(93,907)	61,866
Fund Balance - July 1.....	119,825	119,825	119,825	
Fund Balance (Deficit) - June 30.....	\$ (62,738)	\$ (35,948)	\$ 25,918	\$ 61,866

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(expressed in thousands)

	Education Fund			
	Budgeted Amounts			
	Original	Final	Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
REVENUES				
General Property Taxes.....	\$ 506,225	\$ 506,225	\$ 504,496	\$ (1,729)
Special Taxes.....	250,330	250,330	271,197	20,867
Personal Taxes.....	24,520	24,520	26,977	2,457
Miscellaneous.....	40,000	40,000	40,000	
Total Revenues.....	821,075	821,075	842,670	21,595
EXPENDITURES				
General Government.....	9,339	9,339	1,105	8,234
Education.....	899,495	899,495	897,954	1,541
Total Expenditures	908,834	908,834	899,059	9,775
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(87,759)	(87,759)	(56,389)	31,370
OTHER FINANCING SOURCES (USES)				
Transfers In.....	83,420	83,420	83,420	
Miscellaneous.....				
Total Other Financing Sources (Uses).....	83,420	83,420	83,420	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(4,339)	(4,339)	27,031	31,370
Fund Balance - July 1.....	(12,241)	(12,241)	(12,241)	
Fund Balance (Deficit) - June 30.....	\$ (16,580)	\$ (16,580)	\$ 14,790	\$ 31,370

STATE OF NEW HAMPSHIRE
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FISH & GAME FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(expressed in thousands)

	Fish and Game Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget-Positive (Negative)
	Original	Final		
REVENUES				
Special Taxes.....	\$ 31	\$ 31		\$ (31)
Personal Taxes.....				
Business License Taxes.....	52	52	\$ 44	(8)
Non-Business License Taxes.....	9,533	9,533	8,318	(1,215)
Fees.....	1,916	1,918	1,510	(408)
Fines, Penalties and Interest.....	119	119	141	22
Grants from Federal Government.....	4,540	8,177	7,320	(857)
Grants from Private and Local Sources.....	307	317	223	(94)
Rents and Leases.....				
Interest Premiums and Discounts.....	396	396	100	(296)
Sale of Commodities.....	256	256	405	149
Sale of Services.....			2	2
Assessments.....				
Grants from Other Agencies.....	784	887	744	(143)
Miscellaneous.....	1,972	1,956	4,763	2,807
Total Revenues.....	19,906	23,642	23,570	(72)
EXPENDITURES				
Justice and Public Protection.....	21,808	25,639	21,943	3,696
Debt Service.....	350	350	320	30
Capital Outlays.....	3,736	3,736	1,424	2,312
Total Expenditures	25,894	29,725	23,687	6,038
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(5,988)	(6,083)	(117)	5,966
OTHER FINANCING SOURCES (USES)				
Transfers In.....		824	824	
Transfers Out				
Miscellaneous.....		116	116	
Total Other Financing Sources (Uses).....		940	940	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(5,988)	(5,143)	823	5,966
Fund Balance - July 1.....	10,118	10,118	10,118	
Fund Balance - June 30.....	\$ 4,130	\$ 4,975	\$ 10,941	\$ 5,966

The Notes to Required Supplementary Information are an integral part of this schedule.

Note to the Required Supplementary Information - Budgetary Reporting

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

RECONCILIATION OF BUDGETARY TO GAAP

The state's biennial budget is prepared on a basis other than GAAP. The "actual" results columns of the Budget and Actual – Non-GAAP budgetary statements are presented on a "budgetary basis" to provide a meaningful comparison to budget.

The major differences between the budgetary basis and the GAAP basis are:

1. Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.
2. On a GAAP basis, major inter-agency and intra-agency transactions are eliminated in order to not double count revenues and expenditures.

The following schedule reconciles the General and Special Revenue Funds of the primary government for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2003 (expressed in thousands).

	General Fund	Highway Fund	Fish and game Fund	Education Fund
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (Budgetary Basis)	\$ (171,587)	\$ (93,907)	\$ 823	\$ 27,031
Adjustments and Reclassifications:				
To record Accounts Payable and Accrued Payroll	(113,018)	(104,399)	(1,169)	
To Record Encumbrances	172,419	107,446	1,371	7
To Record Accounts Receivable and Deferred Revenue	59,405	92,836	(1,428)	(66,569)
To Record Other Financing Sources	21,654			44,974
Excess (Deficiency) of revenues and other financing sources over (under) expenditures and other financing uses*	\$ (31,127)	\$ 1,976	\$ (403)	\$ 5,443

*Includes Change in Inventory reserves for General, Highway and Fish & Game of \$307, (\$1,213) and \$115 respectively.

Combining Financial Statements

[Return to Table of Contents](#)

Non - Major Governmental Financial Statements

Special Revenue Fund: Fish and Game Fund: *The operations of the state Fish and Game Department, including the operation of fish hatcheries, inland and marine fisheries, and wildlife areas, and functions related to law enforcement, land acquisition, and wildlife management and research, are financed through the Fish and Game Fund. Principal revenues of this fund include fees from fish and game licenses, the marine gas tax, penalties, and recoveries, and federal grants-in-aid related to fish and game management, all of which are appropriated annually by the Legislature for the use of the Fish and Game Department.*

Capital Projects Fund: *used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds and notes for highway or turnpike purposes, or by the application of certain federal matching grants.*

Permanent Funds:

NH Hospital: *The NH Funds consist of several trust fund that were made expressly for the benefit of patients at the NH Hospital through various bequeathals.*

Land Conservation Endowment: *The Land Conservation Investment Program (LCHIP) is responsible for monitoring the condition and status of 80 state-held conservation easements acquired by the LCHIP.*

Other: *The other category consists of several account that report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the state or its citizenry. They include: Harriet Huntress, Hattie Livesey, John Nesmith, Special Teachers Comp., Catastrophic Illness, Sam Whidden Trust, Ben Thompson, and the Guy Thompson Memorial.*

STATE OF NEW HAMPSHIRE
COMBINING BALANCE SHEET
NON - MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Permanent Funds							
	Fish & Game	Capital	NH Hospital	Land Conservation Endowment	Other Permanent	Total Permanent	Total Non-Major	
ASSETS								
Cash and Cash Equivalents	\$ 9,684	\$ 10,250	\$ 296			\$ 296	\$ 20,230	
Investments			4,787	\$ 2,421	\$ 1,911	9,119	9,119	
Receivables (Net).....	1,979	8,801					10,780	
Inventories.....	677						677	
Total Assets.....	\$ 12,340	\$ 19,051	\$ 5,083	\$ 2,421	\$ 1,911	\$ 9,415	\$ 40,806	
LIABILITIES								
Accounts Payable.....	\$ 549	\$ 6,206					\$ 6,755	
Accrued Payroll.....	523	1					524	
Deferred Revenue		2,409					2,409	
Due to other funds.....	2,025						2,025	
Bond Anticipated Notes.....		50,000					50,000	
Total Liabilities.....	3,097	58,616					61,713	
FUND BALANCES								
Reserved for Encumbrances.....	1,274	46,704					47,978	
Reserved for Inventories.....	677						677	
Reserved for Unexpended Appropriations..	4,663	58,629					63,292	
Reserved for Permanent Trust			\$ 5,083	\$ 2,421	\$ 1,911	\$ 9,415	9,415	
Unreserved, Undesignated (Deficit).....	2,629	(144,898)					(142,269)	
Total Fund Balances (Deficit).....	9,243	(39,565)	5,083	2,421	1,911	9,415	(20,907)	
Total Liabilities and Fund Balances	\$ 12,340	\$ 19,051	\$ 5,083	\$ 2,421	\$ 1,911	\$ 9,415	\$ 40,806	

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Permanent Funds						
	Fish & Game	Capital	NH Hospital	Conservation Endowment	Other Permanent	Total Permanent	Total Non-Major
REVENUES							
General Property Taxes.....							
Special Taxes.....							
Personal Taxes.....							
Business License Taxes.....	\$ 44						\$ 44
Non-Business License Taxes.....	8,318						8,318
Fees.....	1,510						1,510
Fines, Penalties and Interest.....	141						141
Grants from Federal Government.....	7,483	\$ 37,521					45,004
Grants from Private and Local Sources.....	223	273					496
Rents and Leases.....							
Interest, Premiums and Discounts.....	99	82	\$ 191	\$ 110	\$ 50	\$ 351	532
Sale of Commodities.....	405						405
Sale of Service.....	2						2
Assessments.....							
Grants from Other Agencies.....	191						191
Miscellaneous.....			193	78	133	404	404
Total Revenues.....	18,416	37,876	384	188	183	755	57,047
EXPENDITURES							
Current:							
General Government.....							
Administration of Justice & Public Protection.....							
Resource Protection and Development.....	18,014			113		113	18,127
Transportation.....							
Health and Social Services.....			425		198	623	623
Education.....							
Debt Service.....	320						320
Capital Outlay.....	1,424	129,356					130,780
Total Expenditures.....	19,758	129,356	425	113	198	736	149,850
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(1,342)	(91,480)	(41)	75	(15)	19	(92,803)
OTHER FINANCING SOURCES (USES)							
Transfers In	824	308					1,132
G.O. Bond Issuance and Premium.....		10,559					10,559
Total Other Financing Sources (Uses).....	824	10,867					11,691
Excess (Deficiency) of Revenues & Other Sources Over (Under) Expenditures & Other Uses.....	(518)	(80,613)	(41)	75	(15)	19	(81,112)
Fund Balances - July 1	9,646	41,048	5,124	2,346	1,926	9,396	60,090
Change in Reserve for Inventory.....	115						115
Fund Balances (Deficit) - June 30.....	\$ 9,243	\$ (39,565)	\$ 5,083	\$ 2,421	\$ 1,911	\$ 9,415	\$ (20,907)

Fiduciary Funds

Pension Trust Fund

The New Hampshire Retirement System consists of a cost-sharing multiple-employer contributory pension plan (Pension Plan) and trust established in 1967 by RSA 100:A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code and a post-retirement medical plan (Medical Plan).

Pension Plan: *the pension plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State of New Hampshire are eligible and required to participate in the System. Full-time employees of political subdivision, including counties, municipalities and school districts, are also eligible to participate as group if the governing body of the political subdivision has elected participation.*

Post Retirement Medical Plan: *Pursuant to RSA 100-A:50 and RSA 100-A:52, the New Hampshire Retirement System also provides a postretirement medical plan to certain members. The maximum monthly subsidy effective as of July 1, 2002 for eligible members (and beneficiaries) not eligible for Medicare is \$255.60. For those eligible for Medicare, the maximum monthly subsidy is \$161.19. The monthly maximum premium is increased each July 1 by 8%. The System subsidy generally covers the retired member's spouse and any of the retired member's certifiable dependent children with a disability.*

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Pension Trust Funds		
	Post Retirement		Total
	Pension Plan	Medical Plan	
ASSETS			
Cash and Cash Equivalents.....	\$ 3,857	\$ 462	\$ 4,319
Cash Collateral on Security Lending.....	385,956	46,206	432,162
Total Cash.....	389,813	46,668	436,481
Receivables:			
Due from Employers.....	6,143		6,143
Due from State.....	3,602		3,602
Due from Plan Members.....	9,999		9,999
Due from Brokers for Securities Sold.....	57,287	6,858	64,145
Interest and Dividends.....	11,863	1,420	13,283
Other	498	60	558
Total Receivables.....	89,392	8,338	97,730
Investments			
Equity Investments			
Domestic.....	1,642,381	196,623	1,839,004
International.....	296,132	35,452	331,584
Fixed Income Investments			
Domestic.....	800,091	95,784	895,875
Global.....	160,498	19,214	179,712
Commercial Real Estate.....	324,525	38,851	363,376
Alternative Investments.....	296,626	35,511	332,137
Temporary Investments.....	3,320	397	3,717
Total Investments.....	3,523,573	421,832	3,945,405
Other Assets.....	2,832	339	3,171
Total Assets.....	4,005,610	477,177	4,482,787
LIABILITIES			
Securities Lending Collateral.....	385,956	46,206	432,162
Management Fees and Other Payables.....	4,851	581	5,432
Due to Brokers for Securities Purchased.....	128,168	15,344	143,512
Total Liabilities.....	518,975	62,131	581,106
Net Assets Held in Trust for Benefits & Other Purposes.....	\$ 3,486,635	\$ 415,046	\$ 3,901,681

**STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF CHANGES
IN PLAN NET ASSETS
PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)**

	Post Retirement		
	Pension Plan	Medical Plan	Total Plan
ADDITIONS			
Contributions:			
Employer	\$ 47,469	\$ 23,455	\$ 70,924
State Contributions on Behalf of Local Employers.....	11,703	5,850	17,553
Total Employer Contributions.....	59,172	29,305	88,477
Plan Member.....	117,412		117,412
Post Retirement Medical Plan Contributions on Behalf of Employers.....	29,305		29,305
Total Contributions.....	205,889	29,305	235,194
Investment Income:			
From Investing Activities:			
Net Depreciation in Fair Value of Investments.....	(53,784)	(4,881)	(58,665)
Interest.....	52,316	4,747	57,063
Dividends.....	31,090	2,821	33,911
Timberfund Income			
Alternative Investment Income.....	4,055	368	4,423
Commercial Real Estate Operating Income.....	34,701	3,149	37,850
Total Income from Investing Activities.....	68,378	6,204	74,582
Less: Investment Activity Expenses:			
Investment Management Fees.....	20,729	1,881	22,610
Custodial Fees.....	428	39	467
Investment Advisor Fees.....	298	27	325
Total Investment Activity Expenses.....	21,455	1,947	23,402
Total Net Income from Investing Activities.....	46,923	4,257	51,180
From Securities Lending Activities:			
Security Lending Income.....	5,743	521	6,264
Less: Security Lending Borrower Rebates.....	4,402	399	4,801
Less: Security Lending Management Fees.....	402	37	439
Net Income from Securities Lending Activities.....	939	85	1,024
Total Net Investment Income.....	47,862	4,342	52,204
Asset Transfer from Pension Plan.....		1,551	1,551
Other.....	890	81	971
Total Additions.....	254,641	35,279	289,920
DEDUCTIONS			
Benefits/Distributions to Participants.....	244,725	27,907	272,632
Refunds of Contributions.....	15,223		15,223
Administrative Expense.....	4,619	419	5,038
Post Retirement Medical Plan Contributions to Pension Plan on Behalf of Employers.....		29,305	29,305
Professional Fees.....	606	55	661
Asset Transfer to Postretirement Medical Plan	1,551		1,551
Other.....	279	25	304
Total Deductions.....	267,003	57,711	324,714
Change in Net Assets.....	(12,362)	(22,432)	(34,794)
NET ASSETS HELD IN TRUST FOR BENEFITS			
Beginning of the Year.....	3,498,997	437,478	3,936,475
End of the Year.....	\$ 3,486,635	\$ 415,046	\$ 3,901,681

Private - Purpose Trust Funds

Special Fund for Second Injury: *The intent of the Second injury fund is to equalize the compensation costs that the employer and their insurance company must pay for impaired and non-impaired workers alike, thereby removing a potential barrier to the employment of impaired workers. This fund gives employers the opportunity to limit their compensation costs in the event that an impaired employee sustains a workers compensation injury, which leaves the worker more disabled than the same injury would leave a non-impaired worker. Each carrier and self-insured employer pays into the fund based on a formula per statute. Reimbursements for compensable payments made by insurance carriers and self-insured employers, are made only upon written order by the Labor Commissioner to the State Treasurer. The State Treasurer is the custodian of the fund and all moneys and securities in the fund are held in trust by the treasurer and do not constitute money or property of the state.*

College Savings: *This fund is The New Hampshire Excellence in Higher Education Endowment Trust Fund; a non state program which has the purpose of providing scholarships for the benefit of residents of the state of New Hampshire who are pursuing programs of study at eligible educational institutions within the state. Funding will come from a portion of the administrative proceeds of New Hampshire's UNIQUE College Investing Plan. The fund is administered by the New Hampshire College Tuition Savings Plan Advisory Commission, and scholarships will be granted based on need and merit. The State Treasurer is the trustee of the fund.*

Electrical Assistance Program Utility Fund: *The Electrical Assistance Program (EAP) was developed by the Public Utilities Commission (PUC) to respond to the Legislature's call for low-income programs as part of electric restructuring. Accordingly, PUC issued an order approving a program to provide bill assistance to customers, and set up this fund. This program provides income-eligible customers with discounts on their electric bills. Customer bills for low-income assistance are adjusted by the utility company. The state treasurer is the custodian of the fund, and all moneys and securities in the fund are held in trust by the state treasurer and do not constitute money or property of the state. According to the Consumer Affairs Director at PUC, if the Electrical Assistance Program (EAP) were to cease operations, the funds would not remain with Treasury, the custodian of the funds, they would be have to be returned to the rate payers.*

Other: *The other category consists of several accounts whose trust arrangements provide principal and income to benefit individuals, private organizations or other governments. They include: NH Veterans Home Funds, Prison Funds, Laconia State School, Japanese Charitable Trust, Youth Development Center, Rural Rehab. Corporation, Matthew Elliott Trust, YDC Other Funds, and the Special Fund for Active Cases.*

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF NET ASSETS -
PRIVATE - PURPOSE TRUST FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Private-Purpose Trust Funds				
	Special Fund For Second Injuries	EAP	College Savings	Other	Total Private-Purpose
<u>ASSETS</u>					
Cash and Cash Equivalents.....	\$ 4,604	\$ 1,654		\$ 232	\$ 6,490
Other Receivables.....				112	112
Investments.....			\$ 3,662	1,377	5,039
Total Assets.....	4,604	1,654	3,662	1,721	11,641
<u>LIABILITIES</u>					
Other Liabilities.....				73	73
Total Liabilities.....				73	73
Net Assets Held in Trust for Benefits					
& Other Purposes.....	\$ 4,604	\$ 1,654	\$ 3,662	\$ 1,648	\$ 11,568

STATE OF NEW HAMPSHIRE
 STATEMENT OF CHANGES IN NET ASSETS -
 PRIVATE-PURPOSE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003
 (Expressed in Thousands)

	Private Purpose Trust Funds				
	Special Fund For Second Injuries	EAP	College Savings	Other	Total Private Purpose
ADDITIONS					
Contributions:					
From Participants.....	\$ 5,275	\$ 2,187		\$ 6,237	\$ 13,699
From Gifts, Bequests, and Endowments.....			\$ 1,966		1,966
Total Contributions.....	5,275	2,187	1,966	6,237	15,665
Interest Income.....	22	10	13	36	81
Other.....	69		256	383	708
Total Additions.....	5,366	2,197	2,235	6,656	16,454
DEDUCTIONS					
Benefits/Distributions to Participants.....	4,678	543	116	6,512	11,849
Other.....				159	159
Total Deductions.....	4,678	543	116	6,671	12,008
Net Increase/(Decrease).....	688	1,654	2,119	(15)	4,446
NET ASSETS HELD IN TRUST FOR BENEFITS & OTHER PURPOSES					
Beginning of the Year.....	3,916	-	1,543	1,663	7,122
End of the Year.....	\$ 4,604	\$ 1,654	\$ 3,662	\$ 1,648	\$ 11,568

Agency Funds

Deferred Compensation Withholdings: The Deferred Compensation Plan is a benefit offered to full-time State of New Hampshire employees. Deferred Compensation funds are withheld for employees using payroll deductions. An account is maintained as a pass through account for the Deferred Compensation, monies are transferred there temporarily and a check is wired to ING.

Unified Court System: These funds are litigation accounts. When a party sues another party funds are held in the Judicial Branch Trust Funds until a judgment is made. These trust funds are classified by the court; Superior, Probate, District and Family Division, and have several account types within each court.

Child Support Funds: There are currently five non-state program funds reported under the child support funds and all function in a custodial capacity for the benefit of child support recipients. The Payroll account has the most activity and resulted from the transfer of activity from the Department of Probation to the Division of Human Services (Welfare) in 1981. This account includes the checking account for the dollars received and disbursed on behalf of those receiving Child Support. The revolving fund was established to make timely payment of certain child support enforcement services costs. The purpose of the child support enforcement program is to obtain from responsible parents reimbursement of financial assistance provided their dependent children. The Department of Human Services, Division of Child Support Services, has an agreement with ACS State and Local Solutions, Inc., to manage the billing, collection and telecommunication system operated on a statewide basis as part of the automated child support system, which is labeled the Lockbox account. This lockbox functions as DCSS' State Disbursement Unit (SDU). An SDU must be capable of receiving, recording and depositing wage assignments from employers and direct payments from non-custodial parents. Within 48 hours of receiving a payment, an SDU must make an accurate distribution of payments to families throughout New Hampshire, the remaining states and territories, and several foreign countries. The other two funds are used for collections relation to Juvenile Services restitution cases and court repayment of lawyer's fees

Nuclear Decommissioning Fund: The fund was established to accumulate monies necessary to defray the costs of decommissioning the Seabrook nuclear power plant at the end of its useful or serviceable life. The primary purpose being to ensure the health, safety, and well being of the public and future generations. A Committee established by law establishes the costs of decommissioning and accordingly sets the fees required to be paid into the fund by the owners of the facility. The Public Utility Commission then allows the utility to charge its customers on a Per KW basis the amount the utility pays into the decommissioning fund. The State shall have no financial responsibility for decommissioning, or the demolition and removal of facilities constructed as part of any uncompleted facility. According to the Committee's Counsel, the State's only involvement in the fund is to make sure there is enough money in the fund for decommissioning, the owners of the plant are responsible for the actual decommissioning. Any funds remaining after completion of the decommissioning in excess of the customer contributions will be returned to the owner or owners of the facility.

Maine-NH Interstate Bridge- The bridge over the Piscataqua River was inadequate to accommodate the traffic between the states of Maine and New Hampshire. The solution to this problem was the construction of a new bridge. As a result, the Maine-New Hampshire Interstate Bridge Authority was created, with the consent of the United State Congress, by entering into a compact formed through the joining of the state of Maine and New Hampshire through a common agency, a corporation in the state of New Hampshire. The Authority has the power and authority to construct, maintain, reconstruct and operate an interstate bridge across the Piscataqua River between Kittery, Maine and Portsmouth, New Hampshire, and it's approach roads.

Other: The other category consists of several accounts whose assets and liabilities for deposits and investments have been entrusted to the state as an agent for others. The following make up this category, Glencliff Home, Financial Responsibility, Dissolution of Corporations, Employee US Savings Bonds, NH Tech. Student Activities, Skyhaven Hangar, Corrections Funds, Fish & Game Lifetime Licenses, and the Community Conservation Endowment Funds.

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Agency Funds						Total
	Deferred Compensation Withholdings	Unified Court System	Child Support Funds	Nuclear Decommissioning Fund	Maine-NH Interstate Bridge	Other Agency Funds	
ASSETS							
Cash and Cash Equivalents.....		\$ 5,918	\$ 2,192			\$ 1,858	\$ 9,968
Investments.....				\$ 268,547	\$ 3,755	1,363	273,665
Total Assets.....	\$	\$ 5,918	\$ 2,192	\$ 268,547	\$ 3,755	\$ 3,221	\$ 283,633
LIABILITIES							
Custodial Funds Payable.....		\$ 5,918	\$ 2,192	\$ 268,547	\$ 3,755	\$ 3,194	\$ 283,606
Other Liabilities.....						27	27
Total Liabilities.....	\$	\$ 5,918	\$ 2,192	\$ 268,547	\$ 3,755	\$ 3,221	\$ 283,633

STATE OF NEW HAMPSHIRE
COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Balance		Balance	
	July 1, 2002	Additions	Deletions	June 30, 2003
<u>Deferred Compensation Withholdings</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$	\$ 11,426	\$ 11,426	\$
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$	\$ 11,426	\$ 11,426	\$
<u>Unified Court System</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$ 6,463	\$ 14,085	\$ 14,630	\$ 5,918
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$ 6,463	\$ 14,085	\$ 14,630	\$ 5,918
<u>Child Support Funds</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$ 3,613	\$ 165,251	\$ 166,672	\$ 2,192
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$ 3,613	\$ 165,251	\$ 166,672	\$ 2,192
<u>Nuclear Decommissioning Fund</u>				
<u>ASSETS</u>				
Investments.....	\$ 164,481	\$ 107,882	\$ 3,816	\$ 268,547
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$ 164,481	\$ 107,882	\$ 3,816	\$ 268,547
<u>Maine-New Hampshire Interstate Bridge Authority</u>				
<u>ASSETS</u>				
Investments.....	\$ 4,053	\$ 209	\$ 507	\$ 3,755
<u>LIABILITIES</u>				
Custodial Funds Payable.....	\$ 4,053	\$ 209	\$ 507	\$ 3,755
<u>Other Agency Funds</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$ 1,688	\$ 7,835	\$ 7,665	\$ 1,858
Investments.....	1,269	276	182	1,363
Total Assets.....	\$ 2,957	\$ 8,111	\$ 7,847	\$ 3,221
<u>LIABILITIES</u>				
Other Liabilities.....	\$ 32	\$ 628	\$ 633	\$ 27
Custodial Funds Payable.....	2,925	7,483	7,214	3,194
Total Liabilities.....	\$ 2,957	\$ 8,111	\$ 7,847	\$ 3,221
<u>Totals - Agency Funds</u>				
<u>ASSETS</u>				
Cash and Cash Equivalents.....	\$ 11,764	\$ 198,597	\$ 200,393	\$ 9,968
Investments.....	169,803	108,367	4,505	273,665
Total Assets.....	\$ 181,567	\$ 306,964	\$ 204,898	\$ 283,633
<u>LIABILITIES</u>				
Other Liabilities.....	\$ 32	\$ 628	\$ 633	\$ 27
Custodial Funds Payable.....	181,535	306,336	204,265	283,606
Total Liabilities.....	\$ 181,567	\$ 306,964	\$ 204,898	\$ 283,633

Statistics



TABLE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL , HIGHWAY, EDUCATION, AND FISH & GAME FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

Fiscal Year Ended June 30

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
REVENUES:										
General Property Taxes.....	\$ 504,891	\$ 501,704	\$ 458,201	\$ 473,706	\$ 535	\$ 563	\$ 566	\$ 408	\$ 460	\$ 376
Special Taxes.....	1,054,577	1,018,713	932,958	853,246	726,398	670,054	606,135	543,910	648,688	587,539
Personal Taxes.....	94,029	84,222	86,350	94,987	73,765	76,091	50,421	44,498	44,013	43,703
Business License Taxes.....	162,973	159,480	222,651	210,432	209,470	195,182	192,608	180,363	166,090	163,151
Non-Business License Taxes.....	163,764	155,279	67,068	65,954	62,817	61,218	59,253	56,868	55,931	53,824
Fees.....	116,266	111,044	107,900	101,247	99,730	84,789	81,989	84,704	71,185	68,671
Fines, Penalties and Interest.....	22,663	20,598	28,703	29,378	26,882	28,952	26,276	25,056	28,204	26,928
Grants from Federal Government.....	1,198,702	1,072,023	983,342	957,669	914,277	822,569	786,119	814,616	743,308	854,555
Grants from Private and local Sources.....	117,705	101,093	122,584	113,093	116,154	117,707	103,298	107,368	93,269	86,685
Rents and Leases.....	1,333	1,612	1,190	1,430	1,553	4,960	4,832	4,673	4,320	4,305
Interest, Premiums and Discounts.....	11,267	7,195	14,670	16,867	15,368	14,272	12,782	13,507	13,512	4,198
Sale of Commodities.....	11,783	11,354	10,420	10,284	9,826	13,141	11,634	10,485	8,907	10,000
Sale of Services.....	94,314	88,892	76,895	75,492	80,010	73,799	95,338	92,037	136,522	353,692
Assessments.....	14,322	17,365	20,674	22,434	16,771	16,441	15,157	14,058	13,625	13,968
Grants from Other Agencies.....	4,644	3,241	7,631	3,252	4,636	28,852	23,273	21,971	17,305	16,633
Miscellaneous.....	159,518	119,336	89,012	100,159	44,037	43,270	42,056	36,565	41,455	35,104
Total Revenues.....	3,732,751	3,473,151	3,230,249	3,129,630	2,402,229	2,251,860	2,111,737	2,051,087	2,086,794	2,323,332
EXPENDITURES:										
Current:										
General Government.....	211,475	193,996	185,443	184,090	178,530	172,926	177,403	180,569	184,538	179,829
Administration of Justice and Public Protection.....	254,551	235,774	217,222	201,162	193,291	196,322	166,614	156,330	150,774	140,429
Resource Protection and Development.....	161,893	136,086	133,803	118,784	114,199	106,492	102,520	91,089	89,630	87,559
Transportation.....	236,479	221,572	226,928	211,439	201,139	189,599	187,445	189,541	181,756	170,232
Health and Social Services.....	1,505,032	1,351,583	1,276,100	1,210,723	1,178,090	1,115,939	1,080,933	1,094,810	1,192,346	1,315,480
Education.....	1,263,036	1,206,059	1,120,208	1,107,152	342,837	326,280	289,297	269,425	265,692	276,932
Debt Service.....	89,591	82,759	81,390	81,228	78,730	74,293	75,461	74,754	65,131	63,939
Capital Outlay.....	187,047	212,586	179,568	185,391	155,663	133,435	125,492	102,758	90,956	102,952
Total Expenditures.....	3,909,104	3,640,415	3,420,662	3,299,969	2,442,479	2,315,286	2,205,165	2,159,276	2,220,823	2,337,352
Excess (Deficiency) of Revenues Over (Under) Expenditures.....	(176,353)	(167,264)	(190,413)	(170,339)	(40,250)	(63,426)	(93,428)	(108,189)	(134,029)	(14,020)
OTHER FINANCING SOURCES (USES):										
Operating Transfers In.....	68,488	86,434	335,978	402,754	237,886	224,071	236,315	198,214	347,000	427,745
Operating Transfers Out.....	(68,796)	(83,882)	(335,002)	(402,818)	(244,501)	(224,065)	(236,442)	(196,062)	(347,913)	(428,538)
Operating Transfers from Enterprise Funds.....	152,182	148,727	136,623	137,695	132,829	124,329	117,704	106,879	99,681	103,525
Proceeds from Issuance of Bonds.....	97,830	5,130					64	34	1,447	
Proceeds from Refunding Bonds.....					103,351		53,595			
Capital Lease Acquisition.....	1,159									
Bond Escrow Agent.....	(97,830)				(103,351)		(53,595)			
Total Other Financing Sources (Uses).....	153,033	156,409	137,599	137,631	126,214	124,335	117,641	109,065	100,215	102,732
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses.....	(23,320)	(10,855)	(52,814)	(32,708)	85,964	60,909	24,213	876	(33,814)	88,712
Fund Balances - July 1.....	339,596	348,517	402,653	435,041	349,855	288,946	264,733	263,857	297,671	208,959
Change in Reserve for Inventory.....	(791)	1,934	(1,322)	320	(778)					
Fund Balances - June 30.....	\$ 315,485	\$ 339,596	\$ 348,517	\$ 402,653	\$ 435,041	\$ 349,855	\$ 288,946	\$ 264,733	\$ 263,857	\$ 297,671
Ratio of Debt Services to Total										
Expenditures.....	2.29%	2.27%	2.38%	2.46%	3.22%	3.21%	3.42%	3.46%	2.93%	2.74%

**TABLE OF UNRESTRICTED REVENUE
GENERAL FUND - GAAP BASIS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

	Fiscal Year Ended June 30									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Beer Tax.....	\$ 12,281	\$ 12,157	\$ 11,656	\$ 12,090	\$ 11,783	\$ 11,442	\$ 11,366	\$ 11,113	\$ 11,217	\$ 11,199
Board and Care Revenue.....	11,197	10,692	13,333	11,953	11,196	12,966	13,992	13,628	14,439	14,006
Business Profits Tax	137,757	128,574	179,615	146,443	164,833	167,471	171,990	152,683	138,348	112,293
Business Enterprise Tax.....	96,574	121,016	122,165	94,354	93,021	71,036	38,239	24,969	29,764	23,975
Estate and Legacy Tax.....	59,074	56,958	59,348	56,368	54,744	43,274	40,734	33,270	38,456	32,128
Insurance Tax.....	82,161	76,094	66,441	59,336	62,914	54,656	57,202	50,488	42,639	43,070
Securities Revenue(1).....	25,778	26,060	28,023	25,513	22,465	20,522	18,042	15,622	13,722	13,097
Interest and Dividends Tax.....	55,129	70,334	76,651	65,522	63,134	61,799	52,683	51,878	37,970	35,767
Liquor.....	98,996	96,237	89,344	86,015	77,444	75,440	71,713	65,971	63,626	63,990
Meals and Rooms Tax.....	168,722	164,045	157,202	149,777	137,258	128,688	118,984	113,369	107,501	101,418
Parks Revenue(2).....								5,205	4,212	5,953
Dog Racing.....	1,572	1,487	1,262	1,058	1,026	1,011	2,213	2,166	2,802	3,147
Horse Racing.....	2,459	2,701	2,592	2,429	2,427	2,238	2,778	3,032	3,053	2,782
Real Estate Transfer Tax.....	78,859	66,393	59,488	56,779	52,925	44,162	33,330	30,192	28,971	29,221
Telephone/Communications Tax.....	62,522	64,663	49,045	47,794	46,219	40,134	39,253	35,519	33,212	30,512
Tobacco Tax.....	67,066	60,294	61,007	68,381	73,784	76,128	50,436	44,537	44,065	43,712
Tobacco Settlement.....	5,862	5,725		442						
Utilities Tax.....	7,078	5,565	9,656	9,974	10,402	17,731	17,562	17,488	17,073	19,962
Courts Fines and Fees.....	22,114	23,234	23,218	22,845	21,917	21,021	20,167	18,914	19,488	19,238
Flexible Grant.....	25,000									
Other:										
Corporate Returns.....	750	711	681	676	659	655	698	657	621	608
Interstate Vehicle Registrations.....	2,310	2,377	2,602	2,860	2,858	2,795	2,714	2,857	2,842	2,515
Motor Boat Registrations.....					1,779	1,847	1,757	1,600	1,747	1,451
Corporate Filing Fees.....	3,346	3,341	3,427	3,436	3,229	3,227	3,219	3,093	3,042	2,997
Interest on Surplus Funds.....	75	1,250	3,754	3,201	5,978	2,990	181	324	2,885	1,252
Reimbursement of Indirect Costs.....	5,675	5,511	4,255	4,094	4,903	5,100	4,184	4,215	6,151	5,648
Miscellaneous.....	40,409	32,403	32,917	27,877	26,192	29,991	26,266	24,516	25,821	26,992
Subtotal.....	1,072,766	1,037,822	1,057,682	959,217	953,090	896,324	799,703	727,306	693,667	646,933
Net Medicaid Enhancement Revenues (MER).....	116,979	98,208	85,217	74,230	70,411	67,502	54,268	101,983	116,614	250,400
Subtotal.....	1,189,745	1,136,030	1,142,899	1,033,447	1,023,501	963,826	853,971	829,289	810,281	897,333
Other MER Transferred to/(from)										
Uncompensated Care Pool.....	16,594	16,263	12,966	12,915	15,839	9,204	43,482	(10,483)	152,552	222,700
Total Unrestricted Revenue.....	\$ 1,206,339	\$ 1,152,293	\$ 1,155,865	\$ 1,046,362	\$ 1,039,340	\$ 973,030	\$ 897,453	\$ 818,806	\$ 962,833	\$ 1,120,033

(1) Beginning in FY 1994, Securities Revenues were reported separately from the Insurance Tax.

(2) Beginning in FY 1998, Park Revenue was reclassified as Restricted Revenue.

**TABLE OF UNDESIGNATED FUND BALANCE
GENERAL FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

	Fiscal Year Ended June 30									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Balance, July 1 (Budgetary Method).....	\$ 23,309	\$ 136,349	\$ 62,450	\$ 119,484	\$ 131,367	\$ 42,638	\$ 11,356	\$ 53,769	\$ 66,462	\$ 76,118
Additions:										
Unrestricted Revenue.....	1,189,745	1,136,030	1,142,899	1,033,447	1,023,501	960,530	873,749	795,996	847,406	897,333
(1)Unrestricted Revenue - UCP.....	16,594	16,263	12,966	12,915	15,839	12,500	23,704	22,810	115,427	222,700
Total Unrestricted Revenue.....	1,206,339	1,152,293	1,155,865	1,046,362	1,039,340	973,030	897,453	818,806	962,833	1,120,033
Transfer from Other Funds.....	517	3,358	1,787	778	2,334	1,051	1,062	3,374	692	699
Bonds Authorized and Unissued.....		5,130			(7,337)					1,000
Additional Sweepstakes Transfer.....					8,579					
Other Credits.....	35	247	48	214	7,541	5,348	51	436	1,054	383
Total Additions.....	1,206,891	1,161,028	1,157,700	1,047,354	1,050,457	979,429	898,566	822,616	964,579	1,122,115
Deductions:										
Appropriations Net of Estimated Revenues:										
General Government.....	233,118	228,190	227,278	226,440	203,368	185,447	185,695	175,145	192,018	177,992
Administration of Justice and Public Protection.....	163,516	161,406	154,450	149,503	136,298	128,992	109,324	107,573	99,498	96,464
Resource Protection and Development.....	41,161	41,511	38,764	37,753	38,483	37,238	35,071	40,256	37,479	38,931
Transportation.....	3,286	3,399	2,920	3,034	2,882	2,935	2,845	2,886	2,710	3,117
Health and Social Services.....	516,550	498,534	242,393	242,442	218,549	212,160	205,796	203,716	214,601	207,651
Education.....	265,552	242,657	175,520	166,644	156,335	154,785	124,941	119,970	122,203	128,932
Liquor Commission.....	24,943	25,035	22,860	23,417	22,550	22,119	20,443	20,774	19,887	19,466
(2)Special Fund.....			238,823	231,867	205,086	197,903	195,957	195,011	207,410	172,166
Subtotal.....	1,248,126	1,200,732	1,103,008	1,081,100	983,551	941,579	880,072	865,331	895,806	844,719
Uncompensated Care Pool.....	16,594	16,263	12,966	12,915	15,839	12,500	23,704	22,810	115,427	222,700
Health Care Transition Fund (HCTF)...						14,786	6,500	7,912	8,418	
Total Appropriations Net of Estimated Revenues.....	1,264,720	1,216,995	1,115,974	1,094,015	999,390	968,865	910,276	896,053	1,019,651	1,067,419
Less: Lapses.....	(20,650)	(26,179)	(33,010)	(22,913)	(42,794)	(24,105)	(25,493)	(25,973)	(28,614)	(28,046)
Lapses - HCTF.....			(95)	(342)	(485)		(6,415)	(790)	(12,861)	
Total Lapses.....	(20,650)	(26,179)	(33,105)	(23,255)	(43,279)	(24,105)	(31,908)	(26,763)	(41,475)	(28,046)
Net Appropriations.....	1,244,070	1,190,816	1,082,869	1,070,760	956,111	944,760	878,368	869,290	978,176	1,039,373
Transfers to Other Funds.....				65	872	280	398	595	965	834
Other Debits.....			105	1,037	2,704	865	1,823	2,266	2,481	1,315
Transfer to (from) Fund Equity Designation or Reserve Accounts.....	(33,917)	83,252	827	32,526	102,653	(55,205)	(13,305)	(7,122)	(4,350)	90,249
Total Deductions.....	1,210,153	1,274,068	1,083,801	1,104,388	1,062,340	890,700	867,284	865,029	977,272	1,131,771
Balance, June 30 (Budgetary Method).....	20,047	23,309	136,349	62,450	119,484	131,367	42,638	11,356	53,769	66,462
GAAP Adjustments:										
Receivables.....	29,676	26,254	4,121	2,845	4,827	1,520	2,764	3,414	4,555	4,132
Accounts Payable and Accrued Liabilities.....	(88,271)	(67,704)	(44,552)	(48,721)	(62,191)	(58,082)	(53,199)	(58,669)	(56,777)	(52,778)
Transfer from General to Liquor Fund.....	(4,324)	(3,148)	(2,738)	(2,686)	(3,628)	(3,677)	(3,180)	(2,942)	(2,523)	(2,301)
Transfer from General to Special Fund.....			(9,833)	(9,889)	(27,488)	(26,127)	(29,207)	(10,531)	(34,133)	(2,546)
Elimination Bonds Authorized.....										(1,000)
Additional Transfers (to) from Reserve Accounts.....	37,857		(83,347)		(31,004)	(3,602)	38,960	13,221	35,109	
Total GAAP Adjustments.....	(25,062)	(44,598)	(136,349)	(58,451)	(119,484)	(89,968)	(43,862)	(55,507)	(53,769)	(54,493)
Year-End Transfer to Education to cover.. Advances (Negative Cash Balance)...	5,015	(16,580)								
Balance (Deficit), June 30 (GAAP).....	\$	\$ (37,869)	\$	\$ 3,999	\$	\$ 41,399	\$ (1,224)	\$ (44,151)	\$	\$ 11,969

(1) UCP = Uncompensated Care Pool

(2) In fiscal year 2002, the special fund, which was used to capture federal grants and state match, was combined with the general fund.

TABLE OF UNDESIGNATED FUND BALANCE
EDUCATION FUND
FOR FISCAL YEARS 1999 TO 2003
(Expressed in Thousands)

	Fiscal Year Ended June 30,					Description
	2003	2002	2001	2000	1999	
Balance July 1.....	\$	\$	\$ 66,348	\$124,783		
Additions						
Unrestricted Revenue						
Statewide Property Tax.....	452,997	454,135	417,964	417,975		\$5.80/1,000, retained locally
Statewide Property Tax.....	32,666	28,987	24,194	24,150		\$5.80/1,000 , not retained locally
Utility Property Tax.....	18,834	18,170	15,621	31,167		\$6.60/1,000
BPT Increase.....	37,100	32,645	15,800	22,400		1.5% increase from 7% to 8.5%
BET Increase.....	121,400	101,215	36,700	54,100		.50% increase from .25% to .75%
Meals & Rooms.....	6,701	6,604	6,859	6,350		Extension of 8% tax to motor vehicle rentals
Real Estate Tax Increase	39,426	33,073	29,735	28,231		\$2.50 increase from \$5.00/1000 to \$7.50
Tobacco Tax Increase.....	26,977	23,968	25,356	26,649		\$0.15/pack increase from \$0.37 to \$.52
Tobacco Settlement.....	40,000	40,000	38,745	37,750		Annual payment
Initial Tobacco Settlement Payment.....				16,000		One-time payment
Lottery Proceeds.....	66,569	66,125	59,348	61,517		Net Profit
Other			175	2,924		Interest
Total Revenue.....	842,670	804,922	670,497	729,213		
General Fund Budgeted Appropriations.....	83,420	65,690	40,559	39,584		Formerly Revenue Sharing, Foundation Aid & Kindergarten Aid
Total Additions.....	926,090	870,612	711,056	768,797		
Deductions						
Appropriations						
Adequate Education Grant.....	443,873	426,523	406,817	406,817		State Education Grant Disbursed by State
Adequate Education Grant.....	452,997	454,135	417,964	417,975		State Education Grant Retained Locally
Total Grants.....	896,870	880,658	824,781	824,792		
DRA-Hardship Grants.....	5,000	5,000	769	1,162		
DRA-Tax Relief Admin.....				200		
DOE-Kindergarten Aid.....	2,625	1,972		950		
DOE-Admin. & Computers.....				169		
Total Appropriations.....	904,495	887,630	825,550	827,273		
Less Lapses.....		(438)	(25)	(41)		
Net Appropriations.....	904,495	887,192	825,525	827,232		
Current Year Balance.....	21,595	(16,580)	(114,469)	(58,435)		
End of Year Transfers From(To)						
General Fund.....						
FY 2000.....					\$ 124,783	Beginning Balance from Education Betterment
FY 2001.....			48,121			Chapter 158 : 42 Law s of 2001
FY 2002.....		16,580				Eliminate Negative Cash
FY 2003.....	(16,580)					Reimburse Prior Year Transfer
FY 2003.....	(5,015)					Eliminate Current Year Surplus
Balance June 30.....	\$	\$	\$	\$ 66,348	\$ 124,783	

**TABLE OF UNDESIGNATED FUND BALANCE
HIGHWAY FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

	Fiscal Year Ended June 30									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Balance (Deficit), July 1 (Budgetary Method).....	\$ 6,227	\$ (18,274)	\$ (7,346)	\$ 1,454	\$ 7,439	\$ 11,001	\$ (2,903)	\$ 8,299	\$ 1,050	\$ (2,104)
Additions:										
Unrestricted Revenue:										
Gasoline Tax.....	124,221	121,665	119,507	116,050	119,863	115,517	111,001	107,025	102,053	97,222
Motor Vehicle Fees.....	87,725	83,715	72,066	69,882	66,320	64,452	62,449	60,174	59,462	56,425
Other.....	4,737	6,343	8,872	8,344	10,544	9,263	10,090	10,709	8,405	7,501
Total Unrestricted Revenue.....	216,683	211,723	200,445	194,276	196,727	189,232	183,540	177,908	169,920	161,148
Bonds Authorized and Unissued.....										1,300
* Other Credits		19,436		1,202		767	43		370	3,586
Total Additions.....	216,683	231,159	200,445	195,478	196,727	189,999	183,583	177,908	170,290	166,034
Deductions:										
Appropriations Net of										
Estimated Revenues.....	238,453	229,962	222,593	214,021	211,816	200,378	175,814	193,270	168,799	168,210
Less: Lapses **.....	(13,133)	(23,149)	(14,064)	(24,607)	(16,656)	(8,322)	(7,717)	(6,534)	(7,038)	(7,007)
Net Appropriations.....	225,320	206,813	208,529	189,414	195,160	192,056	168,097	186,736	161,761	161,203
Bonds Authorized and Unissued.....			-	13,309	5,736					
Other Debits.....	1,861	(155)	2,844	1,555	1,816	1,505	1,582	2,374	1,280	1,677
Total Deductions.....	227,181	206,658	211,373	204,278	202,712	193,561	169,679	189,110	163,041	162,880
Balance, June 30 (Budgetary Method).....	(4,271)	6,227	(18,274)	(7,346)	1,454	7,439	11,001	(2,903)	8,299	1,050
GAAP Adjustment:										
Receivables.....	1,511	360	271	1,596	269	404	934	317	777	560
Accounts Payable and										
Accrued Liabilities.....	(9,851)	(10,696)	(8,414)	(9,956)	(9,131)	(9,735)	(9,803)	(8,567)	(9,707)	(8,923)
Bonds Authorized										
and Unissued.....					(13,309)	(19,045)	(19,045)	(19,109)	(19,142)	(19,590)
Total GAAP Adjustments.....	(8,340)	(10,336)	(8,143)	(8,360)	(22,171)	(28,376)	(27,914)	(27,359)	(28,072)	(27,953)
Reclassification of Designated Balance.....								39,732	42,962	32,515
Balance (Deficit), June 30 (GAAP).....	\$ (12,611)	\$ (4,109)	\$ (26,417)	\$ (15,706)	\$ (20,717)	\$ (20,937)	\$ (16,913)	\$ 9,470	\$ 23,189	\$ 5,612

* FY 2002 - Other Credits of \$19,436 represents local revenue in excess of estimates accumulated over several years.

** FY 2002 Lapse increases by \$6.3 million for close out of Federal Funds and related state match.

**TABLE OF UNDESIGNATED FUND BALANCE
FISH AND GAME FUND
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

	Fiscal Year Ended June 30									
	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Balance, July 1 (Budgetary Method).....	\$ 3,324	\$ 3,599	\$ 4,277	\$ 5,464	\$ 5,006	\$ 4,310	\$ 4,068	\$ 4,539	\$ 3,999	\$ 3,176
Additions:										
Unrestricted Revenue.....	8,924	8,374	8,230	7,928	8,158	7,923	7,397	6,769	6,819	6,654
Other Credits.....	939	806	811	878	742	847	791	871	640	818
Total Additions.....	9,863	9,180	9,041	8,806	8,900	8,770	8,188	7,640	7,459	7,472
Deductions:										
Appropriations Net of Estimated Revenues.....	10,593	10,545	10,238	10,419	8,809	8,350	8,311	8,413	7,502	7,294
Less: Lapses.....	(1,024)	(1,131)	(667)	(426)	(479)	(276)	(385)	(302)	(730)	(645)
Net Appropriations.....	9,569	9,414	9,571	9,993	8,330	8,074	7,926	8,111	6,772	6,649
Other Debits.....	2	41	148	0	112	0	20	0	147	0
Total Deductions.....	9,571	9,455	9,719	9,993	8,442	8,074	7,946	8,111	6,919	6,649
Current Year Balance.....	292	(275)	(678)	(1,187)	458	696	242	(471)	540	823
Balance, June 30 (Budgetary Method).	3,616	3,324	3,599	4,277	5,464	5,006	4,310	4,068	4,539	3,999
GAAP Adjustment:										
Receivables.....	229	299	152	160	438	211	128	124	102	130
Accounts Payable and Accrued Liabilities.....	(1,216)	(1,027)	(1,036)	(1,178)	(1,238)	(1,325)	(1,182)	(1,120)	(871)	(992)
Total GAAP Adjustments.....	(987)	(728)	(884)	(1,018)	(800)	(1,114)	(1,054)	(996)	(769)	(862)
Balance, June 30 (GAAP).....	\$ 2,629	\$ 2,596	\$ 2,715	\$ 3,259	\$ 4,664	\$ 3,892	\$ 3,256	\$ 3,072	\$ 3,770	\$ 3,137

**SCHEDULE OF REVENUE BOND COVERAGE RATIO
TURNPIKE SYSTEM REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

Fiscal Year	Gross Revenues*	Direct Operating Expenses*	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage Ratio
				Principal	Interest	Total	
2003	67,086	24,505	42,581	7,765	16,984	24,749	1.72
2002	66,218	23,877	42,341	9,415	17,037	26,452	1.60
2001	63,981	21,352	42,629	6,785	18,567	25,352	1.68
2000	63,034	22,064	40,970	6,645	19,807	26,452	1.55
1999	59,257	18,794	40,463	5,817	16,469	22,286	1.82
1998	58,033	16,352	41,681	6,063	15,615	21,678	1.92
1997	55,714	17,231	38,483	5,653	15,944	21,597	1.78
1996	53,231	17,024	36,207	5,348	16,247	21,595	1.68
1995	51,670	17,336	34,334	4,416	16,462	20,878	1.64
1994	49,573	15,749	33,824	3,525	14,744	18,269	1.85

* - Amounts as defined in Turnpike System Bond Resolutions.

**RATIO OF GENERAL LONG-TERM DEBT TO ASSESSED VALUE
AND GENERAL LONG-TERM DEBT PER CAPITA
FOR THE LAST TEN FISCAL YEARS**

(Expressed in Thousands)					
	(1)	(2)	(3)	Ratio Of	General Long-
Fiscal Year	Population	Assessed Value	General Long-Term Debt	General Long-Term Debt To Assessed Value	Term Debt Per Capita
2003	1,292	\$ 118,257,646	\$ 629,461	0.53	\$ 487
2002	1,275	114,813,249	682,389	0.59	535
2001	1,259	99,073,654	628,406	0.63	499
2000	1,236	86,703,541	592,110	0.68	479
1999	1,201	76,154,469	645,907	0.85	538
1998	1,186	70,239,891	617,525	0.88	521
1997	1,173	65,331,719	661,353	1.01	564
1996	1,161	62,883,249	663,286	1.05	571
1995	1,146	61,338,431	646,316	1.05	564
1994	1,133	60,548,790	614,982	1.02	543

Sources: (1) U.S. Dept. of Commerce, Bureau of the Census, reflects the most current available data for all years represented (2003 estimated).
 (2) New Hampshire Department of Revenue Administration (2003 estimated). Equalized evaluation.
 (3) Includes all General Obligation Bonds Payable of the Primary Government.

**DEMOGRAPHIC STATISTICS
FOR THE LAST TEN FISCAL YEARS**

	(1)	(2)	(3)
Year	Population	Per Capita Income	Unemployment Rate
2003	1,292,000	\$ 35,855	3.9%
2002	1,275,000	34,276	4.5
2001	1,259,000	35,086	2.9
2000	1,236,000	33,332	2.8
1999	1,201,000	31,325	2.6
1998	1,186,000	29,596	2.7
1997	1,173,000	27,613	3.2
1996	1,161,000	26,042	4.4
1995	1,146,000	25,008	3.9
1994	1,133,000	24,119	4.6

Sources: (1) U.S. Dept. of Commerce, Bureau of the Census, reflects the most current available data for all years represented (2003 estimated).
 (2) U.S. Dept. of Commerce, Bureau of Economic Analysis, reflects the most current available data for all years represented (2003 estimated).
 (3) New Hampshire Department of Employment Security, Economic and Labor Market Information Bureau.

NUMBER OF BUILDING PERMITS FOR HOUSING UNITS FOR THE LAST TEN CALENDAR YEARS

Building Permits Issued By Number of Units

<u>Fiscal Year</u>	<u>Single Family</u>	<u>Multi- Family</u>	<u>Total</u>
2003*	6,177	1,526	7,702
2002	6,383	1,539	7,922
2001	5,608	543	6,151
2000	6,097	583	6,680
1999	5,696	630	6,326
1998	5,310	461	5,771
1997	4,598	806	5,404
1996	4,233	693	4,926
1995	4,105	318	4,423
1994	4,130	537	4,667

Source: U.S. Department of Commerce, Bureau of the Census.

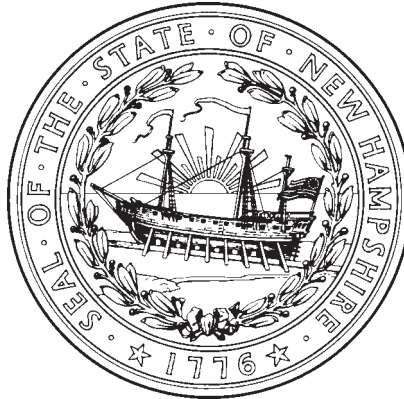
* Data is annualized based on activity through July 2003

Largest Employers (Excluding Federal, State and Local Governments)

<u>Company</u>	<u>Employees</u>	<u>Primary New Hampshire Site</u>	<u>Principal Product</u>
1. Wal-Mart Stores, Inc.	8,160	Multiple	Retail Department Stores
2. DeMoulas/Market Basket	5,800	Multiple	Supermarkets
3. BAE Systems	4,800	Nashua	Communications
4. Dartmouth College	4,100	Hanover	Private College
5. Shaw's Supermarket	4,071	Multiple	Supermarkets
6. Liberty Mutual	3,974	Multiple	Financial Services
7. Hannaford Brothers-Shop 'N Save	3,957	Multiple	Supermarkets
8. Fidelity Investments	3,836	Merrimack	Financial Services
9. Concord Hospital	2,570	Concord	Hospital
10. Home Depot	2,146	Manchester	Hardware Products
11. Elliot Hospital	2,014	Manchester	Acute Care Hospital
12. Genesis Eldercare.	2,000	Concord	Health Care Provider
13. Verizon Communications	2,000	Multiple	Telecommunications
14. Hewlett-Packard Company	1,900	Nashua	Computer
15. Osram Sylvania Inc	1,740	Hillsboro	Light Sources
16. Freudenberg-NOK	1,632	Bristol	Custon-molded products
17. Sears at Fox Run Mall	1,600	Newington	Home and Automotive Products
18. N.H. International Speedway	1,500	Loudon	Motorsports Facility
19. Catholic Medical Center	1,400	Manchester	Healthcare Providers
20. Teradyne Inc.Connection Systems Div	1,400	Nashua	Semi-conductor

Source: *New Hampshire Business Review*, December, 2002.

State of New Hampshire



Lorraine T. Kremer, former Business Supervisor for the State's Budget Office, died on April 18, 2003 at the Hospice House in Concord, New Hampshire, after a long battle with cancer.

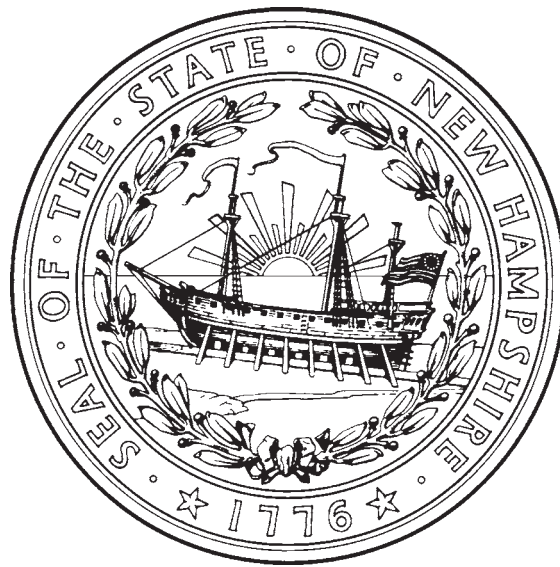
After Lorraine received her master's degree from Northeast Missouri State University, she began working for GASB in 1989. As an assistant project manager, she spent most of her five years working on three pension-related standards, Statements No. 25, 26, and 27. She was a frequent speaker on GASB topics at conferences and professional education sessions across the country. In 1994 she left the GASB, moved to New Hampshire, and began her career as a Business Supervisor for the New Hampshire Department of Administrative Services.

She brought to the state, strong technical skills, leadership and enthusiasm. She provided financial and budgeting assistance to several state agencies and was heavily involved with education funding over the last several years. She was also was a key member of the state's GASB34 implementation team and provided technical guidance towards successful implementation of this new reporting standard.

The Fiscal Year 2003 report is dedicated to Lorraine. She will always be remembered as a true professional, a good friend, and a laugh that brings smiles to everyone around her.

Report Prepared By The Division Of Accounting Services

Thomas E. Martin, CPA, Comptroller
Sheri L. Walter, CPA
Stephen C. Smith, CPA
Harold O. McArdle
Mark S. Stone
Tim M. Hartshorn



State of New Hampshire
Department of Administrative Services
Division of Accounting Services
25 Capital Street
State House Annex Room 310
Concord, NH 03301

<http://admin.state.nh.us/accounting/reports.htm>